FINANCING SPORT
2nd Edition

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Dedication

My heartfelt gratitude is extended to my wife and partner in all respects, Lin, who sacrificed much during the many years and long hours it took me to complete this project. Her keen editing skills are evident throughout the book. I also dedicate this book to my mother, Betty, and my two wonderful sons, Tim and Dan, for their continuous love and support.

Dennis Howard
Eugene, Oregon

To Liz, my friend, my rock, my foundation, my salvation, my all; and to Joanne and Christine, the joys of our lives.

John Crompton
College Station, Texas

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Preface

Over a decade ago we began work on this project. *Financing Sport* began with a phone call from Janet Parks, a professor of sport management at Bowling Green State University and Editor-in-Chief of the Sport Management Library Series, asking me to take on the task of writing the first comprehensive text on the topic of sport finance. Knowing I would need the best help available to achieve the promise of this book, I called on my good friend John Crompton. John and I had collaborated on a similar project earlier in our careers when we co-authored *Financing, Managing, and Marketing Park and Recreation Resources.* Our first book was in print for 20 years. John Crompton is the most prolific and influential writer in the parks, recreation, and tourism field, has done ground-breaking work in the area of public-private partnerships, and is a leading expert on a range of public finance topics. John's contributions to *Financing Sport* are immeasurable; in addition to assuming primary responsibility for many chapters, his fine mind and expert editing touch are evident throughout the book.

The reaction to our first edition of this book, published in 1995, was gratifying. The book has been adopted by many universities around the world and has been translated into Chinese and Japanese. We were also very pleased that one of our intended audiences, sport industry professionals, has used *Financing Sport* as a resource. We had hoped to complete a revised edition several years ago, but my move from Ohio State to the University of Oregon, as well as John's obligations to many other projects, left little time for the book through the late 1990s. However, we began a serious commitment to the second edition in the spring of 2000.

Although the organization and structure of this edition is fundamentally the same as the original, the content is almost completely revised. Rather than simply updating sections of various chapters—common to most new editions—we approached each chapter as though we were writing the book for the first time. The business of sport is fast paced and ever changing. We wanted the content to capture the many new and creative ideas managers in sport organizations have implemented in response to their dynamic work environment. The second edition maintains its original focus on conventional income sources available to sport organizations, including ticket sales, premium seating options, concessions, and the sale and execution of corporate sponsorships.

Three new chapters have been added. Chapter 1 sets the context for the book by describing the economic magnitude and factors influencing the growth of the sport industry. Chapter 7, Sports Enterprises' Sources of Revenues, focuses on three major innovations in venue development that have transformed the revenue-producing capability of sports teams: premium seating, the sale of naming rights, and the sale of personal seat licenses (PSLs). These new revenue sources grew into prominence after the publication of our first edition. The third new chapter, The Sale of Broadcast Rights (Chapter 10), was contributed by Mary

Hums, a professor in the sports administration program at the University of Louisville, and Tim Ashwell, who teaches communications at the University of New Hampshire. Given the growing importance of broadcast revenues to the operation of sports properties, we are grateful these authorities on sports media have provided such a thorough explanation of how broadcast rights are sold and marketed.

Equally gratifying was Chris Bigelow's willingness to update his chapter (Chapter 11) on the many critical issues managers face in developing and operating concession and souvenir sales. He is the president of the Bigelow Companies, and a leading food and beverage and merchandise consultant to stadiums, arenas, and sports teams in North America. From no other source will students and sport managers obtain such crucial "trade secrets" and insights into how to maximize the potential of concession sales for their organizations. Finally, we draw on Daniel Mahony's considerable background and experience in ticketing operations to help us with sections of Chapter 9 dealing with the organization and execution of ticket sales. Dan is currently serving as the Chair of Health, Physical Education and Sport at the University of Louisville.

The second edition maintains a strong practical orientation. Numerous vignettes or mini-cases drawn from actual practice are interspersed throughout the book. We believe students enjoy knowing how capital financing and revenue acquisition practices are actually being used by sport organizations, and include numerous real-world examples to illustrate many of the best practices employed by sport managers. It is our hope that this "nuts and bolts" treatment will allow readers to confidently transfer the methods to effective practice.

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SECTION I:
THE FINANCIAL CHALLENGES FACING SPORT MANAGERS

Photo courtesy of University Oregon Athletic Department.

Chapter One

Sport in the New Millennium

There is no consensus on the economic magnitude of sport. Estimates vary widely. This is because *sport* is not recognized as an official industry in the Census Bureau's North American Industrial Classification System. This classification divides the economy into 20 sectors or major economic activities. Sport is not designated as one of these major economic activities and sport-related activities are scattered across 8 of the 20 sectors.[1] Each of these 8 sectors has multiple subsections into which economic activities are classified. Thus, there is no official "sports industry." Rather there are multiple industries that engage in activities that, to a greater or lesser extent, pertain to sport.

Adding or reconciling sales or financial data from each of these multiple, separate classifications is difficult because of the overlap from one category to the next. In some cases, simply adding numbers across categories may lead to double counting, whereas in others the true economic magnitude may be underrepresented. The lack of a single, official, aggregate figure provided by a government agency leaves a void that several analysts have sought to fill. Inevitably, they use different assumptions and, thus, produce very different estimates. At the end of the 1990s, estimates of total spending related to the production and consumption of sports goods and services ranged from $213 to $560 billion.[2]

The authors believe that the estimate provided by the *Sports Business Journal's* analysts at the beginning of the new century provides a solid starting point.[3] This estimate of the total economic activity related to the production and consumption of organized sport was $213 billion. Their analysis divided sports expenditures into the 15 discrete categories shown in Table 1-1.

Care was taken to conservatively prescribe each of the categories. For example, Spectator Sports was limited to on-site spectator expenditures (e.g., tickets, concessions, etc.) in contrast to most previous studies, which included vague estimates of money spent by radio listeners and television viewers. The analysts used actual hospital billing records in conjunction with appropriate insurance injury codes in determining the $4.1 billion Sports Medical Treatment category.

Table 1-1 Consumer Spending on Organized Sport $213 Billion a Year

Advertising $28.25 billion • Network telecasts: $5.66 billion • National cable: $1.39 billion • Regional: $470 million • Print: $1.8 billion • Stadium/arena-signs/billboards: $16.68 billion • Radio $2.25 billion	**Endorsements $730 million** • Endorsement value of top 80 athletes and coaches: $486 million • SBJ and industry analysts project that this total represents two-thirds of all endorsements.	**Equipment/ Apparel/Footwear $24.94 billion** • Active sportswear used in competition: $8.73 billion • Active athletic footwear used in competition: $6.93 billion • Equipment used in competition: $9.28 billion	**Facility Construction $2.49 billion** • Stadium/track construction: $1.7 billion • Arena construction: $790 million	**Internet $300 million** • Revenue from advertising: $295.5 million • Revenue from access fees: $4.5 million	**Licensed Goods $15.1 Billion** • Apparel/footwear: $8.8 billion • Home (house-wares, furniture, hardware, etc.) $990 million • Media (electronics, software, videos, music, books, toys and games): $3.63 billion • Misc.: $1.68 billion	**Media Broadcast Rights $10.57 billion** • Big Four pro league telecast rights: $8.87 billion • Collegiate telecasts: $987 million • Other telecasts: $270 million • Radio: $443 million	**Professional Services $14.03 billion** • Agents: $220 million • Marketing agencies: $2.37 billion • Facility management and consultants: $5.74 billion • Financial and insurance services: $5.7 billion
Spectator Sports $22.56 billion • General admission gate receipts: $10.47 billion • Premium seating: $3.25 billion • On-site game-day concessions/-merchandise/parking: $8.84 billion	**Sponsorships $5.09 billion** • Events, teams, leagues, broadcasts: $5.09 billion	**Medical Treatment $4.1 billion** • Baseball: $1.45 billion • Football: $1.16 billion • Basketball: $759 million • Soccer: $314 million • Softball: $150 million • Other: $267 million	**Travel $44.47 billion** Expenditures for transportation, accommodations and meals for: • Spectators: $40.82 billion • Colleges: $1.09 billion • Big Four pro leagues: $295 million • Other: $2.26 billion	**Publications/ Videos $2.12 billion** • Magazine circulation revenue: $922 million • Videos/video games $752 million • Books: $450 million	**Gambling $18.55 billion** • Legal sports wagers: $2.3 billion • Horses/-greyhounds/jai alai: $15.33 billion • U.S. Internet: $920 million	**Team Operating Expenses $19.23 billion** • Big Four pro league player salaries: $5.24 billion • Big Four operating expenses: $7.0 billion • Colleges: $4.3 billion • Others: $2.69 billion	

The same kind of precision was used in estimating spending related to sport-related travel. Rather than using the traditional broad category label of Sports Tourism, analysts purposely chose the more restrictive label of Sports Travel. Previous studies commonly used straight-line estimates that assumed that sports accounted for 25% of all tourism expenditures. This unsubstantiated assumption has led to greatly exaggerated sport tourism figures. *The Sports Business Journal* researchers narrowed their consideration of travel to that done exclusively for the purposes of attending and competing in organized sporting events. In the case of major league sports, tourism visitors account for no more than 5% of attendance.[4] Travel expenditure estimates were based on data furnished by the Travel Industry Association, U.S. Travel Data Survey, and from league and team travel spending reports.

Although the definition of sports business used by the *Journal* was fairly inclusive, it did *not* include the fastest growing segment of the industry, *nonorganized recreational sports.* These more informal, participatory sports include a broad range of outdoor pursuits such as camping, hunting, fishing, and cycling, as well as a variety of popular fitness and exercise activities such as aerobic exercising and running and jogging. According to the National Sporting Goods Association,[5] in 2001, Americans spent almost $16 billion on equipment for just six activities. Bicycling led the way at $4.72 billion, followed in order by aerobic exercise ($3.84 billion), hunting ($2.20 billion), fishing ($2.07 billion), jogging and running shoes ($1.67 billion), and camping ($1.37 billion). By 2001, pleasure boating enthusiasts were spending $13.5 billion a year on acquiring and equipping new boats from skidoos to yachts. Table 1-2 shows considerable variation in expenditures across activities in the 5-year period between 1997 and 2001. Mainstream participation sports such as basketball (+61.3%), aerobic exercise (+29.4%), tennis (+16.3%), and soccer (+21.4%) registered impressive gains. Those activities trending downward included cross-country skiing (-53.6%), alpine or downhill skiing (-65.7%), and racquetball (-57%).

The Alternative Sports Boom

The fastest growing segment of sport spending at the beginning of the new millennium appears to be in the newly emergent “alternative,” “extreme,” or “lifestyle” sports, which are highly individualistic, free-spirited, adrenaline-rush activities. They include sports such as skateboarding, snowboarding, in-line skating, BMX biking, windsurfing, downhill mountain biking, whitewater kayaking, and the more extreme activities like bungee jumping, street luge, and sky surfing. Until the late 1990s, these activities existed on the fringe. For the most part, they were shunned by mainstream media, characterized as “pseudosports” or even denigrated as “parlor-room stunts” performed by antiestablishment teens.[6] By 2000, however, these so-called extreme sports had become mainstream. According to the National Sporting Goods Association,[5] over 80 million Americans, predominantly young males between 12 and 24 years of age, were spending billions of dollars annually on equipment and apparel to in-line skate ($251 million), snowboard ($235 million), and skateboard ($105 million). Even one of the most recent innovations in water sport, wakeboarding, which is water-skiing on what amounts to a snowboard, had sales close to $80 million.[6]

Table 1-2 Consumer Purchase of Mainline Recreational Sports Equipment

(In millions of dollars)	1997	1998	1999	2000	2001	1997 to 2001 % Change
Aerobic exercise	$2,968	3,233	3,396	3,609	3,841	+ 29.4
Archery	255	261	262	254	270	+ 5.8
Baseball/softball	304	304	329	319	316	+ 3.9
Basketball	186	298	293	291	300	+ 61.3
Bicycling	4,860	4,957	4,770	5,131	4,725	- 2.8
Bowling	156	156	160	162	169	+ 8.3
Camping	1,153	1,204	1,264	1,353	1,369	+ 18.7
Fishing tackle	1,891	1,903	1,916	2,030	2,070	+ 9.5
Football	80	80	84	86	89	+ 11.2
Golf	3,703	3,641	3,714	3,804	3,874	+ 4.6
Hockey & ice skates	168	169	140	138	142	- 8.4
Hunting & firearms	2,562	2,200	2,437	2,270	2,205	- 8.6
Jogging/running shoes	1,482	1,469	1,502	1,638	1,670	+ 12.7
Racquetball	49	49	44	36	28	- 5.7
Skin diving & scuba gear	332	345	362	355	348	+ 4.8
Skiing, alpine	723	718	648	495	475	- 65.7
Skiing, cross-country	69	66	40	34	37	- 53.6
Soccer balls	56	61	64	65	68	+ 21.4
Table tennis	36	35	41	41	41	+ 13.9
Tennis	319	313	338	382	371	+ 16.3
Volleyball & badminton	31	31	31	29	30	- 3.3
Water skis	56	56	51	60	59	+ 5.3
Athletic goods/ team sales	2,303	2,338	2,408	2,456	2,505	+ 8.8
				Grand Total		$25,002

Source: National Sporting Goods Association (2002). *The Sporting Goods Market in 2002,* Mt. Prospect, IL: National Sporting Goods Association.

Alternative sports have had a particularly strong appeal to "Generation Y," 12- to 24-year-olds who increasingly have turned away from team "jock" sports to embrace the more free-spirited individualism of extreme sports. Many of these young participants appear to adopt a lifestyle that connects music and fashion to the alternative sports in which they engage.[6] Despite the hip, edgy, or antiestablishment image of these sports, corporations have been drawn to the increasing consumer strength of alternative sport participants. The annual spending power of 10- to 24-year-olds was estimated at $91.5 billion.[7] In addition, the spending potential of this youth market is expected to grow significantly over the next several decades. The 12-24 age cohort is currently growing at twice the rate of other age groups and is unlikely to level off until 2030.[6]

Figure 1-1
Growing Corporate
Investment in
Alternative Sports

Many companies see alternative sports as a conduit for reaching the hard-to-penetrate youth market. For example, Mountain Dew attributes its carefully cultivated "edgy brand image" as a sponsor of extreme sports as the primary reason for its being the fastest-growing soft drink in America in the early 2000s.

Perhaps the most prominent example of how mainstream extreme sports have become is the success of the annual Summer X Games. Originated by ESPN in 1996, the X Games are the premier event for alternative sports, the "Olympics of extreme sports." ESPN, in concert with ESPN2 and ABC, provides almost 20 hours of prime-time coverage, including competition in such activities as aggressive in-line skating, street luge racing, bicycle stunt riding, and sky surfing. Among youth aged 6-17, the X Games have become the second most appealing sporting event, exceeded only by the Summer Olympics.[8] In 2000, the event drew 270,000 spectators on site and over 5 million television viewers, including 37% of all male teenagers in the United States.[9] As might be expected, given the Games' popularity, corporations are investing substantially—an estimated $22 million in 2000—to align with the games as corporate sponsors. "Gold sponsors," such as Mountain Dew, Taco Bell, and Starburst Fruit Chews, have paid upwards of $2 million each to promote their association with the event to young consumers.

When consumer spending on mainstream and alternative participatory sports is added to the *Sports Business Journal's* $213 billion valuation of organized sport, the sum of annual expenditures exceeds $250 billion. At $250 billion, sport in its many manifestations, from organized to alternative, is a significant and growing segment of North America's economy.

The '90s Boom

The sports industry was a major beneficiary of the longest sustained period of growth in U.S. history—it provided the necessary condition for the impressive growth of many sports organizations. The most notable features of that decade included the following:

Sports Facility Construction Boom

Construction spending on new arenas and stadiums for major league professional sports teams was almost $16 billion in 2003 dollars during the 1995-2003 period. During the 1990s, over 160 new major and minor league ballparks, arenas, and racetracks were built in the United States and Canada (Howard, 1999).

Proliferation of Professional Sports Leagues and Teams

In the 1990s, almost 180 new professional sport teams came into existence, together with 13 new leagues (e.g., the XFL, National Rookie League, West Coast Hockey League). The total inventory of professional teams at all levels now exceeds 800. Unanticipated by analysts was the spectacular expansion of minor league hockey in the Sun Belt states and the emergence of women's sports leagues (i.e., Women's National Basketball Association, Women's United Soccer Association).

Increased Corporate Investment in Sport

Corporate investment in sport more than tripled from 1990 to $8 billion in 2000. The three most common ways in which companies align with sports properties are as follows:

> ***Corporate sponsorships.*** Over 5,000 companies in the United States and Canada spent $5.92 sponsoring sporting events and teams in 2000, a jump of 14% from the preceding year.[11] The most common form of sponsorship occurs when a company pays a fee to have its company name or logo associated with a sports property such as the PGA's *Buick* Open or *Gatorade's* sponsorship of the NFL's Punt, Pass & Kick program. Through sponsorships, companies attempt to capitalize on the appeal of the event to enhance the visibility and image of their brands or products.
>
> ***Naming rights.*** One of the most prominent manifestations of corporate America's alignment with sport has been the number of naming-rights deals since the mid-1990s. In 1990, only a handful of professional teams played in corporately named venues. By 2001, 82 major league teams played in arenas or stadiums named for a company brand or product.[12] When the growing number of collegiate venues and minor league ballparks and arenas with corporate names is added to this list, the total exceeds 125. Early in 2001 the $300 million barrier was broken when Reliant Energy Company paid $300 million to name the home of the NFL's Houston Texans Reliant Stadium. In the 1980s, the biggest naming-rights deal was the $18.75 million entitlement of the Target Center in Minneapolis.
>
> ***Premium seating.*** A few years ago, it was calculated that 114 teams in the four major leagues realized close to $1 billion from luxury suite revenues.[13] The great majority (over 75%) of these suite tenants are corporations with earnings that exceed $100 million annually. In addition, when the substantial number of season tickets purchased by companies for clients and employees is included—reputedly as high as 50 to 60% of the season tickets sold in NHL and NBA arenas—overall corporate investment in sport properties at all levels is substantial.

Annual Sporting Goods Sales Near $75 Billion

At the start of the new millennium, total expenditures for all sporting goods (footwear, apparel, equipment) and recreational transport (e.g., pleasure boats, bicycles, recreational vehicles, snowmobiles) approached $75 billion, an increase of almost 50% from the start of the previous decade.[5]

The Challenges Ahead

Ostensibly, the '90s boom suggested that substantial benefits are accruing to the owners and managers of sport organizations, as well to the fans and consumers of these establishments. As we enter the new decade, there are many more modern and sophisticated venues, much more sport product than ever before, and unprecedented levels of corporate support. However, at the same time, there are a number of serious challenges confronting managers. These include the increasingly competitive marketplace, emerging technology, and the need to do more with less.

Saturated Marketplace

Ironically, the prosperity that undergirded the unprecedented growth of the sports industry over the past decade has been the major contributor to one of the most serious challenges confronting sport managers: a s*aturated marketplace.* Consumers now have more entertainment options available than ever before. Indeed, a respected national business publication proclaimed that the long-term robust economy that characterized the 1990s had stimulated the creation of so many new sport and entertainment alternatives that the United States now faced an "entertainment glut."[14]

Although new sports teams and properties (e.g., NASCAR, WWF, WNBA) expanded substantially, so did other entertainment options. Major entertainment and media companies like Disney, Time-Warner, and Viacom invested heavily in movie studios, broadcast and cable networks, online ventures, new record labels, and theme parks. It is projected that the total number of channels available to TV viewers will increase from about 75 in 2000 (mostly cable channels) to 1,000 by 2010, "when digital compression of TV signals makes room for hundreds of channels, and the linkage of TVs and computers becomes a reality."[14] At the same time, the exponential growth of websites is creating further choices for consumers. Some industry analysts are worried that there may already be too many choices, and consumers may be overwhelmed. As *Business Week* proclaimed, "It's a brutal battle, especially as audiences fragment amid the flurry of competing choices."[14]

As entertainment providers, sport managers are part of this highly competitive environment. Major investments made by entertainment conglomerates in the last decade are indicative of the positioning of sport as entertainment. For example, it was the entertainment value of the Atlanta Braves and Hawks on his television superstation that persuaded Ted Turner to acquire them, not his interest in basketball or hockey. Similarly, the Chicago Tribune Company purchased the Chicago Cubs to be the principal attraction of the Tribune's superstation.[15] A spokesperson for Comsat Enterprises, one of the largest cable suppliers in the United States stated, "We own the Nuggets because we're an entertainment company… We distribute entertainment. We package entertainment. We create entertainment."[15] Thus, when Comsat bought the Quebec Nordiques and moved the NHL franchise to Denver, and purchased a major interest in the Philadelphia's Flyers and 76ers, the company had more entertainment to distribute, package, and create.[15]

Sport managers are competing for the scarce time and disposable dollars of the same consumers that all other entertainment companies are seeking to attract. The challenge of competing in such a cluttered marketplace is exacerbated because consumer spending on entertainment in the early 2000s slowed to around

6% annually.[14] This rate of entertainment spending was much smaller than the annual growth in investment in sport and entertainment properties. The problem is particularly acute in the spectator sports, a sector that is receiving a shrinking share of the amount of disposable income being spent on entertainment. During the 1990s, spending on spectator sports grew at a modest rate of around 2% per year, while personal investment in video, audio, and computer equipment increased at an annual rate of over 10%.[16]

It is evident that sport managers face more competition from both within and outside the sports industry than ever before. Finding ways to attract new, and retain existing, customers in an increasingly cluttered marketplace is a formidable challenge. Effective managers will take full advantage of technology to establish distinctive communication and service links with current and prospective customers by adopting a range of Internet initiatives likely to include electronic ticket sales and exchanges, chat rooms, and opportunities for fans to interact with players and coaches. They will implement powerful customer loyalty programs to reward and encourage repeat patronage and will demonstrate commitment to quality and customer service through the creation of satisfaction guarantee programs that eliminate a consumer's purchase risk.

Taking Advantage of Emerging Technology

The sports industry is only beginning to take advantage of the promise the Internet and other technology offers with respect to revenue generation and fan development. The early initiative by sports properties to adopt the technology was limited to getting online. Establishing an Internet presence usually involved creating a communication vehicle containing fan-friendly information (i.e., scores, player bios, schedules), "eye-popping graphics," and some interactivity.[17] It was not until the end of the 1990s that major sport entities began to develop coherent, long-term web strategies. Now almost all leagues and teams have established Internet marketing divisions, dedicated to capitalizing on the potential of the web to sell licensed merchandise, engender fan loyalty, increase ticket sales, and reach disaffected fans.

The President of AOL's Interactive Properties Group, who was also managing owner of the NHL's Washington Capitals, may provide the closest vision of how sports organizations will take full advantage of the Internet over the next decade. His team is using email (reputedly, he personally answered 10,000 email messages during his first year of ownership), AOL's Instant Messaging, hotmail, live chats with players and coaches, chat rooms, and fan clubs in order to build a strong sense of community among fans. He expects the web to become a substantial revenue source. Even by the year 2000, the Internet had generated more income from ticket, merchandise, and sponsorship sales than the $8 million per year the club received from local television.[18]

Other sports organizations also are taking advantage of the Internet's ability to access their fans in a personalized manner. For example, the New York Yankees have induced more than 150,000 website visitors to register for their listserver. The San Francisco Giants established an innovative electronic ticket exchange program that is likely to become a model for other sports organizations.[19] Season ticket holders are able to use the Giants' website to sell tickets they cannot use at face value or higher. The exchange program is designed to reduce no-shows by at least

50% and to encourage high ticket-renewal rates by ensuring season ticket holders will not hold large numbers of unused tickets.

The key technological development of the near future is likely to be the convergence of Internet technology with television. Television and the Internet will converge into one delivery system in one of two contrasting ways: either as WebTV or webcasting. With WebTV (ABC dubs their version "Enhanced TV"), information accessed via the Internet is displayed on the television screen, whereas with webcasting (or netcasting), video imagery and audio are accessed directly from a personal computer. The first option brings the Internet to the television; the latter delivers live broadcasts, called streaming video or livecasting, directly to the PC user via the Internet. In either case, sport consumers will have the opportunity to instantly access game statistics (i.e., pitch count, third-down conversions), injury reports, and customized editorial comments while viewing digital-quality video.

The interactive aspect of the viewing experience eventually will allow a consumer to select a particular camera angle from which to view the action, for example, from the goalie's perspective. Quokka Sports provided early cutting-edge, "immersive" (user-active) live-event coverage on the Internet that allowed viewers to manipulate action sequences such as America's Cup yacht races or to monitor Michael Johnson's biometrics during his Olympic sprint performances.[20] The integration of immersive coverage with the rapid growth of net-enabled cell phones (60 million people in the United States are likely to have access to Net livecasting by phone by 2003) is likely to transform the distribution and consumption of sport over the next decade.[20] Irrespective of the form of convergence or the extent to which it may occur, the integration of television and the computer will require managers to consider a range of critical issues, from how to both protect and enhance broadcast rights to how to fully leverage the considerable revenue opportunities related to virtual advertising, sponsorship, and merchandising.

It is conceivable that advances in technology will make paper tickets and ticket sellers all but disappear by the end of the decade, to be replaced by electronic tickets and electronic turnstiles. Fan-card technology suggests that at some point fans will not have to bring money to the ballpark. The card-swipe technology will allow fans to purchase concessions and team merchandise while collecting points for prizes provided by the team. Fan cards allow teams to reward their most loyal fans while providing the organization with the ability to develop sophisticated databases on fan purchase behaviors (who buys what, how often, at what point in a game, etc.). Other exciting technological advancements that offer substantial potential for revenue growth include "smart" seats (small computer screens on individual seats that provide replays from different angles, game statistics, and the ability to place in-seat concession orders; Rofe, 1998), and virtual signage (computer imaging technology that allows television advertisers to superimpose messages on a playing field or in the stands that are seen only by television viewers[22]).

The revenue enhancement potential of the Internet for sports organizations is enormous. The New York Yankees became the "first pro sports team to turn cyberspace into a major seven-figure revenue source.[23] In a move similar to traditional broadcast deals, the Yankees sold their Internet rights to American City Studios (ACS), a website producer, for an estimated $3 million. ACS agreed to pay the entire rights fee in advance to produce and market the team's website. ACS, in return, kept 100% of the site-produced revenue from advertising, sponsorships, and subscriptions. Although it might be expected that one of America's most storied franchises could sell its Internet rights for a premium, the NFL, as a league entity, expects to raise the revenue bar much higher. The NFL Commissioner announced that he expected total league Internet revenues to hit $5 billion by 2004.[24]

Finally, from an international perspective, consider the revenue potential of the web for a renowned sports property like Manchester United, a perennial soccer powerhouse in the English Premier League. "Man U's" website attracts traffic from millions of avid soccer fans around the globe. As an illustration of its widespread support base, the team has 25,000 subscribers to its monthly fan magazine in Malaysia! Consider the financial windfall the club will realize when it is able to digitally stream live netcasts for its 60 games a year to all its supporters from Sheffield to Sydney. Even at a modest subscription fee of $10, the Internet telecast revenues will be gigantic.

Doing More With Less

Never before have sport managers faced as many complex challenges as those that confront them today. They face the daunting challenge of coping with declines in traditional revenue sources—tax support, media revenues, and in many cases, gate receipts—at the same time that costs are rapidly escalating. Maintaining programs even at current levels requires that sport managers learn to do more with less. At the beginning of the new millennium, only a handful of major league teams and only 48 of the 900-plus NCAA programs[25] operated without a deficit. As will be seen in the next chapter, a majority of both professional and amateur sports teams struggle to break even financially.

The fiscal challenge has caused managers to look beyond traditional financing concepts and strategies and to supplement them with new imaginative approaches. It is the basic theme of this text that managers of sport organizations are required to seek out scarce resources from a wide range of possible sources and to use their marketing and financing skills to ensure that the scarce resources acquired are allocated in such a way that they yield optimum social and economic benefits. These are exactly the requirements of an entrepreneur. Indeed, we view the contemporary sport manager as an entrepreneur. Increasingly, effectiveness in professional, collegiate, and other forms of amateur sport will be dependent upon managers' ability to aggressively seek out resources for their organizations. A major emphasis of this book is on providing readers with an in-depth understanding of the many traditional and innovative revenue acquisition methods available to sports organizations. It is the authors' belief that managers who are confident in their understanding of when and how to use a combination of these financing options will be in the best position to sustain and enhance the viability of their sports organizations.

The following quotation caught the authors' attention. It is extracted from a piece written in a national newspaper by a well-known commentator:[26]

> Out of the clubs which form the League, it would probably be over the mark to say that one-sixth are beginning this season with a balance on the right side of their accounts. One result is that they are anxious to offer lower wages to their players. In spite of that some players are keeping up the prices happily.
>
> My point is that football is being ruined by being a commercial speculation. Local team spirit is being shattered by the purchases of players from outside, and is being replaced by merely mercenary ambitions on the part of the players.
>
> A large proportion of the clubs are so hard up that they can never hope to buy good enough players to rise to the top… We have developed, on the one hand, into a ring of financiers, who have captured sport for its value in the market, and, on the other hand, into a raucous, grasping multitude, who are good enough at pushing through the turnstiles, or bellowing at a player, or even battering a referee, but who have no notion of taking any decent exercise for themselves at any time.[26]

There are many in North America who would concur with the sentiments expressed by the writer and advocate that such flimsy foundations make the contraction of professional sports inevitable and perhaps desirable. However, the article appeared in *The Daily Telegraph,* an English national newspaper; its context was the English Premier League; and it was published in September 1900! The writer was bemoaning the transfer of a player from one club to another for $500 and a team spending $6,000 on a new ground. In 2002, an English Premier League player was transferred for a fee of over $50 million, and the new Wembley soccer stadium is projected to cost $1 billion. A large proportion of the clubs in 1900 were "so hard up that they could never hope to buy good enough players," but 90% of them are still in business 102 years later.[26] Clearly, sports managers have responded to the challenge to find new revenues in the past, and the authors are confident they will do so in the future.

Organization of the Book

The golden era of unparalleled growth and optimism that characterized the 1990s has given way to a future that is less certain. Successful managers will have to find ways to deal with greater competition in the marketplace than ever before, contentious player-management relations over distribution of revenues, and ticket prices that exceed the price-tolerance levels of many consumers. Helping managers to effectively cope with the reality of plateauing revenues and rising costs is the essential thrust of this book.

Although the focus of the book is on the two most visible segments of the sport industry, intercollegiate and professional sports, the methods and strategies of revenue acquisition discussed in its chapters can be adapted to a wide range of public and private sport organizations. Throughout the book, numerous references and examples are drawn from a variety of sport settings.

Sport organizations are likely to acquire financial resources from three generic sources, which are shown in Figure 1-2: the public sector, the private sector, and the sport enterprise.

Figure 1-2 Sources of Revenue for Sports Organizations

Private Sector Sources	**Public Sources**	**Sports Enterprise Sources**
• Investment capital	• "Hard" taxes	• Tickets, concessions
• Corporate sponsorships	• "Soft" taxes	• PSLs
• Donations	• Grants, subsidies	• Naming rights
	• Tax abatements	• Luxury seating
		• Licensed merchandise
		• Media fees

The public sector has traditionally assumed a significant role in the financing of sport organizations. Although government support may be axiomatic in the public recreation agency and collegiate contexts, some are surprised to find it is so pervasive in the professional sports arena. Consider the following:

> Modern professional sport in the United States exists as we know it as a result of the public policies of federal, state, and local governments. Without favorable tax treatment of the professional sports industry, antitrust exemptions for the NFL-AFL merger and Major League Baseball, and the broad antitrust exemption for the packaging of telecast and broadcast rights to league games, the economics and business operations of professional sports leagues would be dramatically different. Similarly, without the public financing of playing facilities, below-market rents for the facilities, tax exemptions, and other forms of subsidies provided by local and state governments, the economics and business operations of professional sports would be significantly different. This is just as true of those sports organizations and events that are not considered to be major league (i.e., the secondary sports market) as it is for the major league sports and premier sporting events.[27]

At the local government level, cities and counties have a long tradition of committing substantial tax monies in support of sport from youth programs to the construction and operation of stadiums and arenas for professional teams. However, in the past decade the sports landscape has been transformed by the commercial alignment of private companies with sports organizations in the form of event sponsorships (e. g., the Nokia Sugar Bowl) and stadium naming agreements (e. g., Reliant Stadium) that were valued at $8 billion per year by 2000. Finally, sports properties can generate substantial revenue directly from their own operations through the sale of admission tickets, concessions, licensed merchandise, and media rights. Since the mid-1990s, prices for attending sports events have risen at unprecedented rates. Ticket prices to major league sporting events doubled in the latter half of the 1990s. High-revenue-yielding premium seating options (club seats, luxury suites) displaced less expensive seating in all stadiums and arenas built in the 1990s. PSLs (permanent seat licenses), COIs (contractually obligated income streams), and a number of other revenue-enhancing innovations have become standard features throughout professional and collegiate sport in North America.

Before examining the major sources of revenue available to sport managers, chapter 2 provides a comprehensive overview of the two most visible segments of organized sport, professional sports and intercollegiate athletics. The intent of this introductory chapter is to furnish readers with insights into the many financial challenges and opportunities facing the thousands of sports leagues and teams operating in the United States and Canada at the major, minor, and collegiate levels. The economic status and prospects of professional and collegiate sports are analyzed, and recommendations for sustaining the financial viability of each sector are provided.

Section II of the book focuses on obtaining capital resources from the public sector and from investors. It describes the many public and private sources of capital for constructing and/or renovating sports venues. Chapter 3 examines trends in the cost and number of professional and collegiate facilities and discusses "who should pay" for the development of new sports facilities. Should sport facilities be financed primarily from public tax sources, or should teams and/or private owners pay their own way? The sources of momentum undergirding the large public investment in sport facilities are analyzed, and the contentious issues of opportunity costs and equity that invariably accompany public subsidy decisions are discussed. Invariably, economic impact analyses are undertaken to measure the magnitude of economic benefits purported to accrue from facilities, and these are central to debates on the public subsidy issue. For this reason, chapter 4 presents the principles of economic impact analysis and highlights the common errors that are made in applying this technique. The chapter provides a clear explanation of the steps involved in conducting legitimate economic analyses. Alternative justifications for public subsidy are explored in chapter 5, where it is suggested that the most powerful of these may be the "psychic income" residents receive from their association with a team or event.

When managers seek public sector funding, it is important that they have some understanding of the alternative options available for acquiring these tax dollars. Thus, chapter 6 provides an overview of the basic sources of taxation. Content includes a discussion of how various property and sales taxes are administered by governments and the manner in which they have been used to finance sport facility development. The chapter concludes with a review of the various kinds of tax-exempt and taxable bonds used to underwrite stadium and arena construction projects. Chapter 7 shifts the focus from public to private sources of capital development financing. The chapter identifies income generated by sport facilities from the sale of naming rights, luxury suites, and permanent seat licenses. Chapter 8 concludes the second section of the text by describing how government agencies and sports organizations can creatively combine public and private sources of capital to produce opportunities that neither could achieve alone. The chapter examines the principles that underlie funding partnerships between sports properties and public sector authorities. Numerous examples of successful joint venture arrangements are provided to illustrate how managers can leverage partnerships with other entities.

Section III of the book focuses on the financial resources that accrue directly from the operation of sport enterprises. Sports properties have historically relied on charged admissions, the sale of concessions, and the sale of radio and TV rights to finance their annual budget requirements. These traditional revenue sources are discussed in chapter 9 ("Revenues From Ticket Admissions"), chapter 10 ("Sale of Broadcast Rights") and chapter 11 ("Sale of Food Service and Souvenir Concessions").

Section IV is concerned with the solicitation of external resources. An increasingly prominent source of revenue for amateur and professional sports organizations is the sale of corporate sponsorships. Given the growing importance and sophistication of sponsorship sales and execution, four chapters are devoted to the topic. Chapter 12 provides an overview of the factors that have stimulated sponsorship growth and a detailed discussion of the benefits and risks associated with sponsorship agreements. The importance of matching the products and target markets of corporate sponsors, with those of the sports organization is the topic of chapter 13. The strategies and tactics involved in successfully soliciting sponsorships from corporations are covered in chapter 14. The sponsorship section concludes with a discussion in chapter 15 of the methods that corporations use to measure the impacts accruing from their sponsorship of sporting events.

For many youth-serving and collegiate sports organizations, fundraising constitutes an integral part of their annual operating budgets. Thus, the book concludes with a description of how sport managers can effectively organize and implement both annual donor and major gift programs from support groups. Forms of major giving, including endowments and trusts, are covered.

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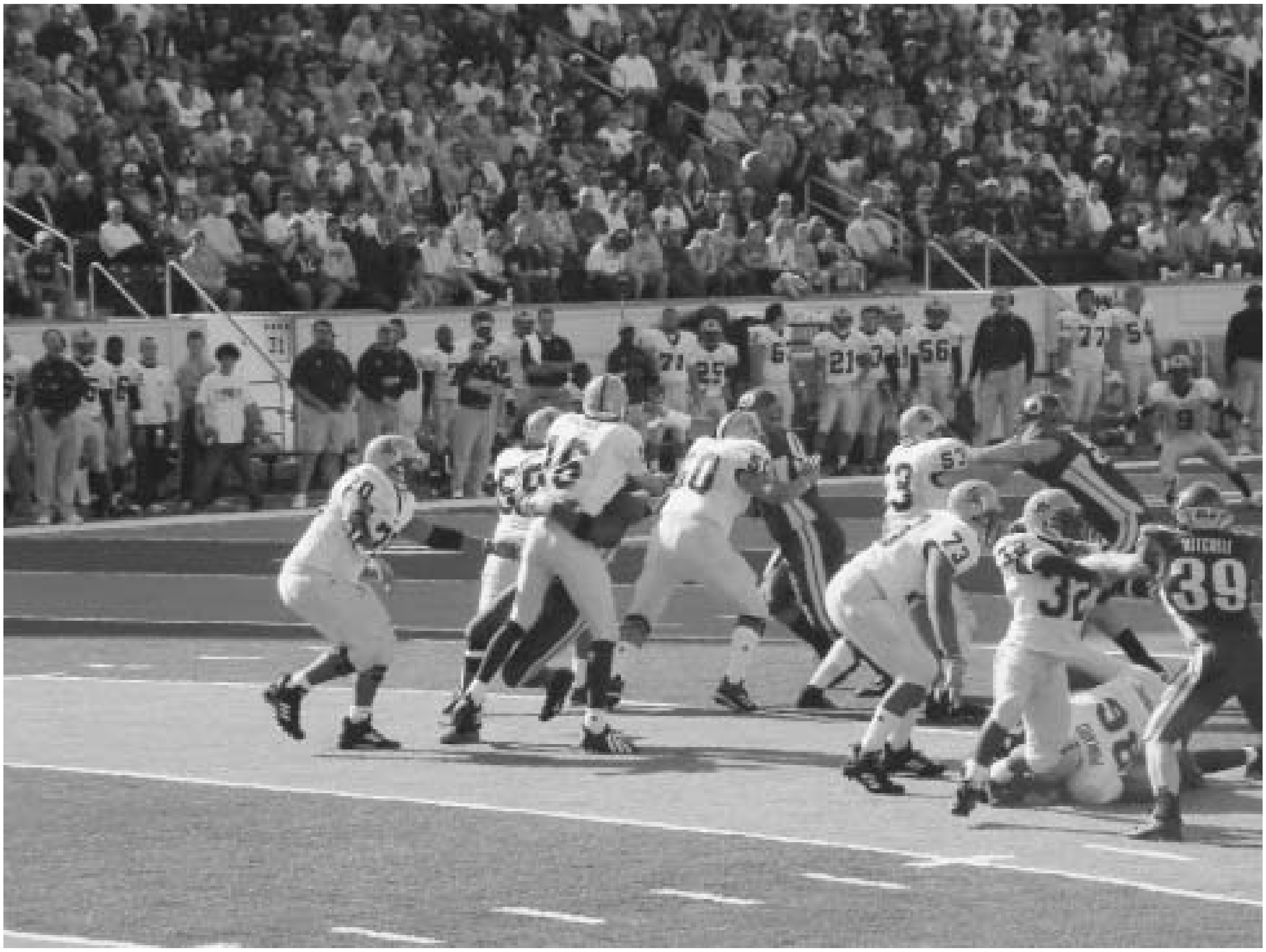

Photo courtesy of University Oregon Athletic Department.

Chapter Two

The Challenges Facing College and Professional Sports

This chapter focuses on the current state, and future prospects, of the two most visible sectors of sport, professional sport and intercollegiate athletics. Together, these two segments include over 2,000 sports teams in the United States and Canada, attract over 200 million spectators annually, and spend $15 billion a year producing games and sporting events. Both sectors grew substantially during the 1990s. The number of professional sports teams at the minor and major league levels increased from 476 in 1990 to 813 by 2001.[1] By 2000, 1,256 colleges and universities sponsored either National Collegiate Athletic Association (NCAA) or National Association of Intercollegiate Athletics (NAIA) men's or women's sports programs, or both, in the United States, up from 1,183 in 1995. In Canada, the 49 universities affiliated with the Canadian Intercollegiate Athletic Union sponsor a range of men's and women's sport teams.

Although both professional and collegiate sports teams generally prospered during most of the 1990s, both sectors face difficult financial challenges in the years ahead. As discussed in chapter 1, competition among the expanded number of sports properties, as well as from the myriad entertainment entities outside of sport, has become more intense. This chapter examines the many challenges confronting managers of college athletic programs and professional sport franchises. The intent is to provide the reader with an understanding of the issues that affect each of these spheres so the financial tools described later in the text can be applied effectively.

The Financial Status of Intercollegiate Athletics

By 2000, college athletics was a $4.0 billion enterprise.[2] The average annual budget for athletic departments with major football and basketball programs was $20 million in 2000. The high degree of commercialization in collegiate sport is evident in the high salaries of coaches, the emphasis on television contracts, the prominence of corporate sponsorships, and the emergence of licensing agreements. For the modern sport manager, charged with maintaining the financial solvency of a college sport program, the adage "It's no longer a game, it's a business" is a prevailing theme. It has been noted that "the imperative to become more businesslike is a dominant characteristic of big-time college athletics."[3] Texas A&M is typical of major college athletic departments:

> Once upon a time, athletic departments did little more than pay salaries, operate facilities, schedule games, and count gate receipts, but those days are long gone. Aggie Inc. has 177 full-time employees and about 500 part-time student workers—not counting 500 or so student-athletes. It retires debt on bonds for stadium expansion. It has an entire division devoted to tutoring athletes and monitoring academic performance. As part of its never-ending search for more revenue, it licenses radio broadcast rights and hunts for businesses willing to sponsor special events, from the TU (Texas) football game ($100,000 to call it the AT&T Lone Star Showdown) to a spring softball tournament (forty plane tickets from Continental Airlines to help defray the travel expenses of nationally ranked teams).[4]

Although critics assail the intense commercial entertainment emphasis or corporatization of "College Sports, Inc.," the indisputable reality of modern collegiate sports is that its day-to-day governance is shaped largely by financial considerations of cost containment and income generation. More than three fourths of the largest collegiate athletic programs are losing money.[2] Smaller college programs at the Division III and NAIA levels are experiencing even greater financial pressure, with from 75 to 90% reporting deficits. A former executive director of the NCAA commented, "You can probably count on your two hands the number of athletic departments that actually have a surplus annually."[5] This may be hyperbole, but an NCAA study of the financial condition of its member schools found that only 16% of the Division I and II athletic programs reported more revenue than expenses in 1999.[2]

As shown in Table 2-1, only the largest athletic programs are able to operate on a financially self-sufficient basis. Division IA schools, on average, generated $20 million in revenues from the operation of athletic programs largely from ticket sales, media contracts, and fundraising. At the same time, however, annual operating costs at the Division IA level averaged $20 million, indicating that collegiate athletics at the highest level is essentially a break-even proposition. Although a $20 million budget buys an average Division I A athletic program, if the goal is to be among the best 25 all-round athletic programs, the budget need rises to about $36 million.[6] Athletic programs at all other levels did not come close to generating revenues sufficient to cover the cost of operating their sports programs. Sports programs at the Division IAA and IAAA levels averaged annual operating deficits in excess of $2 million.

With costs exceeding revenues for all but a small number of programs, athletic departments have had to depend on substantial institutional support. In 1999, universities contributed $1.3 million on average to support their athletic programs. Institutional support comes in a variety of forms. A number of athletic programs in state-supported or public institutions like the universities of Minnesota and

Table 2-1 Mean Revenues and Expenditures of NCAA's Division I and II Athletic Programs

Excluding School Support

Division	Total Revenues	Total Expenses	Net Profit/(Loss)
I-A	$20,000,000	$20,000,000	0
I-AA	$ 3,200,000	$ 5,400,000	($ 2,200,000)
I-AAA	$ 2,200,000	$ 4,700,000	($ 2,500,000)
II (w/football)	$ 800,000	$ 2,000,000	($ 1,200,000)
II (no football)	$ 500,000	$ 1,400,000	($ 900,000)

Including School Support

Division	Total Revenues	Total Expenses	Net Profit/(Loss)
I-A	$21,900,000	$20,000,000	$ 1,900,000
I-AA	$ 4,800,000	$ 5,400,000	$ (600,000)
I-AAA	$ 3,800,000	$ 4,700,000	$ (900,000)
II (w/football)	$ 1,400,000	$ 1,900,000	$ (500,000)
II (no football)	$ 1,000,000	$ 1,400,000	$ (400,000)

Profits and Losses by Sport

Division	Total Revenues	Total Expenses	Net Profit/(Loss)
I-A Football	$ 9,040,000	$ 5,260,000	$ 3,780,000
I-AA Football	$ 620,000	$ 1,100,000	($ 480,000)
I-Men's Basketball	$ 3,160,000	$ 1,580,000	$ 1,580,000
I-Women's Basketball	$ 280,000	$ 920,000	($ 640,000)
I-Men's programs	$13,500,000	$ 9,500,000	$ 4,000,000
I-Women's programs	$ 1,500,000	$ 3,900,000	($ 2,400,000)

Source: Fulks, Daniel. (2000). *Revenues and expenses of Divisions I and II intercollegiate athletics programs: Financial trends and relationships—1999.* The National Collegiate Athletic Association.

Oregon receive direct subsidies from their respective state legislatures. A great many others receive mandatory (e.g., University of Illinois) or optional (e.g., University of Texas) student athletic fees annually. Indeed, a growing number of school athletic programs have been sustained only as a result of student fees. Students at the University of California at Davis approved a fee increase that kept as many as ten sports from being eliminated as varsity activities. The University's sports program faced a cut of at least $600,000, which would have forced the elimination of up to half of its 20 sports teams. An aggressive lobbying campaign by a booster group called Students Supporting Athletics was able to persuade nearly two thirds of the students to vote in support of paying $34 more each quarter to rescue the sports program, the Student Health Center, and other programs that faced cuts. The increase remained in effect for three years, after which students voted on continuing it.

As Table 2-1 indicates, subsidies provided from institutional sources allowed Division IA programs on average to report a “profit” of $1,900,000 and for schools in lower classifications to show smaller losses. The only true profit center for Division IA schools, however, is football. Over 70% of the Division IA schools responding to the NCAA survey reported their football program operated with a surplus. Indeed, the average profit margin reported by the nation’s biggest football programs was an impressive $3.8 million. In many institutions, football must support the entire intercollegiate athletic program for both men and women. Thus, *Fortune* magazine referred to the University of Texas Longhorn football program as a “Grade A cash cow.[7]” The athletic department credits the team with generating 80% of the department’s $45.3 million in overall revenues in 1999: “That’s $36 million from tickets, individual donations, rights fees, sponsorships, hot dogs, beer and other sources.[7]”. A hundred miles to the east, at Texas A&M University, the athletic director proclaimed, “Football pays for everything.”[4] The revenue disparity between football and the rest of the school’s sports programs is enormous. “Every other sport except men’s basketball hemorrhaged red ink,” with baseball losing $450,000, women’s basketball losing $787,000, and softball losing $525,000.[4] Altogether, 17 sports at Texas A&M lost $6.2 million. Fortunately, football turned a $7 million surplus.

It is worth noting that the financial growth in intercollegiate athletics has been mirrored by a similar investment in intramural activities. During the 1990s, there was substantial investment in recreation centers constructed on campuses. In 2002, the National Intramural-Recreational Sports Association reported that its 725 member institutions had 1,546 recreation centers, almost half of which had been built since 1995, including 25% built since 2000. Although centers at larger schools can cost over $100 million, even small schools are being pressured by competitive forces to spend $20 million or more on combined intramural-intercollegiate centers. These investments reflect the rising expectations of college students about the amenities a college must have for it to be attractive to them. Schools have found that elaborate recreation centers with cybercafes as well as exercise equipment and playing courts for basketball and volleyball are important ways to attract and retain students.[8]

Cost Control Struggle

Total expenses for Division IA programs have almost tripled over the past 15 years, from $6.9 million in 1985 to $20 million in 1999.[2] Two factors that account for most of the increase are escalating tuition costs and gender equity. Tuition at the average public university rose 234% between l980 and 1995.[9] This leads to a commensurate increase in costs to support scholarship athletes so that at the University of Alabama, for example, the costs increased from $3 million in 1988 to approximately $6 million annually in 2000. Federal (Title IX) and state legislation mandated gender equity in the provision of men’s and women’s intercollegiate sports. The NCAA responded by prescribing that investment in women’s sports be equivalent to their proportion of representation in the student body. However, women’s sports at most institutions currently contribute no more than 5% to l0% of the total revenues generated by average collegiate athletic programs.[2]

The response options of athletic departments to these pressures are either to create ways to add revenue or to cut costs. However, some are dubious that much, if any, progress will be made toward the second alternative. The athletic director at the University of Texas claimed, "It's clear that we're not going to be able to limit spending" for college athletics. Carrying the point further, he asserted, "There's a tendency in college athletics, like Congress, to spend if you have it."[10] And spend they have. According to figures released by the NCAA in 1999, from 1982 to 1999, athletic department expenses for almost all NCAA-affiliate athletic departments climbed over 300%.

It will be difficult to reduce the current level of costs given higher tuition costs and gender-equity compliance requirements. Other requirements constraining cost reduction options include the NCAA mandate that "even the smallest Division I schools" sponsor a minimum of 14 teams (7 men's and 7 women's) and spend a minimum of $500,000 on athletic scholarships in nonrevenue sports. The dilemma facing the average Division I institution is that nonrevenue men's and women's sports generate only 8% of an average athletic department's revenues, but account for 28% of its costs.

The situation confronting the University of Oregon Athletic Department is illustrative of the wide difference between revenue and nonrevenue sports. In 1998-99, football and men's basketball generated $16.8 million in gross revenues against $9.8 million in expenditures. The other 12 nonrevenue sports earned a total of $776,289, whereas their aggregate costs amounted to $5.3 million. The Athletic Director commented, "Football and basketball continue to carry them [non-revenue sports] at levels that are being mandated. If it weren't for institutional support [annual State of Oregon appropriations of $2 to $3 million] we'd have a tough time making it."[11]

The mounting insolvency of most college athletic departments has focused attention on the need to rein in escalating expenses. The NCAA established a special committee to identify ways in which athletic programs could realize cost savings.* One option given serious consideration was to replace the traditional practice of awarding athletic scholarships to cover the complete cost of tuition and room and board, with a substantially less costly aid package based on the financial capability of each athlete's family. Serious challenges face the radical shift from "full-ride" to "need-based" athletic scholarships. A former NCAA executive director expressed concern about the equity of a financial aid package based on need, commenting, "Some athletes would receive no aid. So then you get into a fairness question. Just because this individual's parents saved their money, it will cost them as opposed to somebody else that hasn't been so frugal."[12] In spite of this concern, it is likely that college presidents are likely to view this proposal as a viable approach to controlling the single greatest expense of college athletic programs.

In an effort to reduce growing deficits in their athletic programs, university presidents of the eight Big Sky Conference institutions imposed dramatic cost-containment requirements on their league's football programs. Faced with declining state funding and demands for gender equity, the presidents mandated a reduction of six football scholarships a year per school, beginning in 1994. By the start of the 1996-97 season, league schools were limited to 45 scholarships.

*Reducing the expense of Division IA football has been a focal point of NCAA cost-containment efforts. Since the early 1970s there has been a steady reduction in football scholarships from no cap in 1971 (most Big 12 schools had 130-150 scholarship players) to 92 in 1993 to 85 overall in 1995.

Given the limited potential for serious cost containment and the relentless demands for more revenue, it is not surprising to see emphasis placed on finding new income sources. As one critical observer of college athletics noted, it is becoming difficult to separate college athletic programs from professional sports, "Professional franchises showed the way to new revenues and now colleges are following."[13] Luxury suites, naming-rights deals, and corporate sponsorships have all become increasingly prominent aspects of the college sports landscape.

The current reality of college athletics is far from its popular perception as a "cash cow" for higher education. Spiraling costs, increased competition, and flat or declining revenues have all combined to place intercollegiate sports programs under severe financial pressure. A large majority are operating at a deficit. Grappling with budget issues—revenue generation and cost containment—will be key issues confronting collegiate sport managers for the foreseeable future.

The Impact of Title IX

In an environment of rising costs, athletic administrators now are also required to confront the enormous financial implications of finally complying with Title IX. A series of dramatic events in the early 1990s required colleges to make a serious commitment to addressing the gender equity issue. For almost two decades after the passage of Title IX of the Education Amendments Act in 1972, many college athletic programs paid only lip service to the notion of equal treatment of sexes. Then, beginning in l99l, in quick succession, three developments gave Title IX great momentum:

> A Supreme Court ruling in the Georgia case, *Franklin v. Gwinnett Public Schools,* for the first time permitted stiff monetary penalties for Title IX violations.
>
> The Office of Civil Rights identified "discrimination on the basis of sex in athletic programs" as a priority in its overall enforcement strategy.
>
> The Big Ten Council of Presidents adopted a resolution requiring conference schools to achieve a ratio of at least 40% female athletes to 60% male athletes by August, l997.

The situation facing the Big Ten when it embarked on Title IX compliance illustrates the substantial financial challenges confronting schools working toward bringing about greater gender equality in college sports. An overall shift of 10% in gender representation was required to meet the conference's 40% minimum female participation goal. When the 40-60 proposal was adopted in l992, 6,650 athletes represented conference schools in varsity competition. Approximately 2,000 (or 30%) were women. To attain the 40-60 ratio, three broad strategies were available:

1. If the number of male athletes was not to decrease from the existing total of 4,650, then 1,100 females would have to be added, which would increase the total to 7,750 athletes.

2. If no women were added, then there would have to be a reduction of 1,650 men, reducing the total number of athletes to 5,000, of whom 2,000 would be women.

3. If the overall number of athletes was to remain unchanged, then 660 men would have to be replaced with an equal number of women to attain the 60-40 ratio.

Given the severe financial constraints facing most institutions, the added strain of increasing the total number of athletes to 7,750 by adding 1,100 females seems an improbable scenario. The more feasible scenarios are options 2 and 3, which mean men's teams would have to be eliminated.

Although some schools and conferences had taken proactive actions on their own, real across-the-board progress in the 1990s emerged as a result of more rigorous enforcement of compliance standards by the U.S. Department of Education's Office of Civil Rights. The basic requirements set forth by the Office of Civil Rights require schools to meet one of three criteria, often referred to as the "three-part test":

1. The "substantial proportionality test" requires that women athletes receive participation opportunities and resources proportionate to the women in the student body at large. To be in full compliance with this test, a school must (a) offer varsity sport participation opportunities to women within an allowable difference of no more than 5% of the proportion of women in the general student population; and (b) allocate scholarship monies proportionate to the percentage of female student athletes in the athletic department.

   On a campus in which women represented 48% of the total undergraduate enrollment, to be in full compliance with both provisions of the proportionality test, no fewer than 47% of the athletes would be women, receiving no less than 47% of the athletic department's scholarship support.

2. The university demonstrates a consistent history of expanding and improving women's sports programs.

3. The university's athletic department is fully meeting the needs and abilities of its female student athletes.

In order to meet any one of these tests, athletic departments have responded in one or a combination of three ways: (a) by securing more money in order to add more women's sports; (b) by redistributing resources from men's to women's programs; and (c) by cutting existing men's sports. To date, roster capping and the elimination of men's programs have been the most common approaches used by departments to comply with Title IX.

During the 1990s, every men's nonrevenue sport, with the exception of golf, lacrosse, and track, lost teams or participants. Over 400 men's athletic teams have been abolished in order to meet Title IX. Between 1992 and 1997, 3.4 men's positions on college teams were cut for every woman's spot created.[14] Coaches from those men's sports that have been affected the most severely such as swimming, wrestling, and gymnastics have unsuccessfully lobbied Congress to eliminate the proportionality test. A spokesperson for the U.S. Track Coaches Association stated, "The intent of Title IX is not to have discrimination, and clearly there is."[15] However, the Executive Director of the Women's Sports Foundation argues that the coaches are attacking the wrong target, "The problem is financial-football and basketball expenses have gone up faster than revenues. Instead of forcing the big budgets to take a smaller piece of the pie, they cut minor men's sports and then blame Title IX."[15] She points out that substantial new revenue is being injected into athletic departments, but it "is being used to fuel the arms race being fought in college football and men's basketball. NCAA research shows that of every three new dollars going into college athletic programs over the last five years, two go to men's sports and only one to women's sports."[16] Her position is that schools should be required to retain all men's sports programs while they bring women's sports into compliance with Title IX.

Although football in particular is for many big schools the major source of revenue, it is also by a significant margin the most expensive sports program to operate, consuming on average almost $5.3 million annually or 24% of a Division IA athletic department's total budget. Some believe that substantial savings could be realized by cutting back the funds allocated to football. For example, as much as $500,000 in savings a year could result from cutting in half the number of grants-in-aid or scholarships awarded by Division IA football programs, but such proposals have been met with aggressive resistance from coaches and many senior athletic department officials who believe a significant reduction would seriously diminish the quality and, thereby, the marketability of collegiate football. As one senior NCAA official declared, "It (further cuts) would be akin to killing the Golden Goose." Although the impact of any reduction is unclear, it appears unlikely that cuts in the number of scholarships for football at the Division IA level will be made.

Although the courts have provided the legal authority for advancing the interests of women athletes, managers of college athletics have to assume moral responsibility for ensuring an equitable balance between men's and women's sports opportunities on college campuses. Finding new revenues and implementing cost-containment strategies to achieve the goal of gender equity are major fiscal challenges facing sport administrators. The courts have finally decreed that there will be no compromise on the issue of gender equity, so these are challenges that must be met aggressively.

The Financial Status of Professional Sports

Growth of Professional Sports

In chapter 1 it was noted that there has been substantial growth in professional sports at all levels over the past decade. The number of teams in the so-called Big 4 major leagues grew from 103 franchises in 1989 to 123 by 2001. During that time, the NHL added eight expansion teams, MLB added four, the NFL added three, and the NBA added five new teams. In addition, several new leagues were launched in the 1990s with aspirations of becoming prominent national properties, most notably Major League Soccer (MLS) and the Women's National Basketball Association (WNBA).

The most spectacular growth in professional team sports, however, occurred at the secondary level, where the so-called minor league teams, particularly in hockey and basketball, have expanded in numbers substantially (Table 2-2). By 2000, over 140 minor league hockey teams were playing in arenas throughout the

Table 2-2 Listing of the Minor Leagues in North America

Football	Basketball
Arena Football League	ABA 2000
Arena Football 2	Collegiate Professional Basketball League
Canadian Football League	International Basketball League
Indoor Professional Football League	National Basketball Development League
	National Rookie League
Baseball	United States Basketball League
Appalachian League	
Atlantic League	**Hockey**
Arizona Fall League	American Hockey League
California League	Central Hockey League
Carolina League	East Coast Hockey League
Eastern League	Ontario Hockey League
Frontier League	Quebec Major Junior Hockey League
Florida State League	United Hockey League
International League	United States Hockey League
Midwest Baseball League	West Coast Hockey League
New York-Penn Baseball League	Western Hockey League
Northern Baseball League	Western Professional Hockey League
Pacific Coast League	
Pioneer Baseball League	**Soccer**
South Atlantic Baseball League	National Professional Soccer League
Southern Baseball League	World Indoor League
Texas Baseball League	
Texas-Louisiana Baseball League	**Roller Hockey**
Western Baseball League	Roller Hockey International, Inc.

United States and Canada. Only baseball, with a total of 188 franchises, has more minor league teams. Four new basketball leagues were launched in 2000 alone, including the International Basketball League, the National Rookie League, the College Pro League, and the ABA 2000; and what is probably surprising even to ardent football fans, by 2001 over 60 professional football teams *in addition* to the 32 NFL franchises, operated in cities throughout the United States and Canada.

The Arena Football League (AFL) may be the single most successful league property launched in the last 15 years. The AFL has expanded from 4 teams at its inception in 1987 to16 teams in 2002. It has grown from one to two separate leagues with the creation of its own minor league, called AF2 in 2000. In 2002, there were 50 indoor football teams playing under the auspices of the Arena Football League.

Arena football is a hybrid version of the outdoor game with similar scoring, rules and the basics of blocking and tackling. The major differences are that it is played indoors, on a surface half the size of a regulation football field, surrounded by padded dasherboards, similar to hockey. The result is a game called the "50-Yard

Indoor War" or the "Brawl Inside the Wall."[17] The league's tremendous success is predicated on providing a high-energy spectacle complete with laser shows and fireworks at family-affordable prices (the average ticket price in 2000 was $12). The Commissioner of the AFL observed, "The NFL is the Nieman-Marcus of pro sports. We just want to be the Wal-Mart."[17] The AFL's unique "Fans Bill of Rights" (Figure 2-1) is a public declaration of their fan-first orientation.

Professional sports, like other facets of the economy, are undergoing globalization. Among the major leagues, the NFL has led the way by sponsoring a European League and playing an early game each season in a part of the world where it is believed the NFL presence can be expanded, for example, Japan and Mexico.

The NBA employs a growing number of foreign players, and its games are shown on television in over 200 countries. The NBA's globalization efforts appear to be pursuing two tracks. First, the NBA announced an intention to expand into Europe with a target date of 2006. This may be done by (a) the NBA's adopting "alliances" with European clubs, many of which have already contacted them; (b) the NBA's taking over an existing league; (c) forming a new league comprising existing European teams, which would withdraw from their national competitions; or (d) awarding franchises to a number of European cities that would become members of the NBA.[18]

The second track to globalization for the NBA may lie in the exploitation of the home markets of its existing foreign players. The Houston Rockets drafted Yao Ming, a 7'5" center from China. Like Li Tie, whose situation is described below in Figure 2-2, Yao is the most well-known athlete in his sport, and basketball vies with soccer as the most popular sport in China. With China's population of 1.3 billion, its economy growing at 7% per year, and a 98% awareness of the NBA among teenagers in the major Chinese cities, the NBA believes there is substantial potential and revenue from merchandise sales and television deals.[19]

Figure 2-1 Arena Football League Fan's Bill of Rights

- We believe that every fan is entitled to a wholesome environment for guests and family members, free of violence, profane gestures, and language or rude behavior that could in any way interfere with a first class entertainment experience.
- We believe that every fan demands that we maintain absolute respect for the game of Arena Football and maintain the integrity of the finest fair competition at all times.
- We believe that every fan is entitled to a total entertainment experience at an affordable cost for all members of the family from the time they arrive the arena to the time they depart.
- We believe that every fan is entitled to interact with and have access to players and coaches for autographs and conversations in recognition of their support at every game.
- We believe that fans expect us to honor our country and to be involved in our communities to make contributions for a better, safer and more positive place to live.
- We believe that fans should know that we are committed to serve and not to be served, to give and just not to take, and to inspire and encourage people to higher levels of personal and professional achievement, growth, maturity and respect for each other.

Baseball is now an Olympic sport with rapidly growing markets emerging in Southeast Asia, Latin America and the Caribbean. Players from these regions regularly appear on MLB teams. As their numbers increase, it seems likely that MLB will follow the initiatives of the NFL and NBA. Who knows? In the not-too-distant future, the World Series may be a real world series with games between teams representing the best baseball nations in the world instead of a national championship for club teams in North America!

Soccer is one of the few aspects of globalization not dominated by the United States. Almost all the world's best players display their talents in one of the top four leagues: English Premier League, Italian Serie A, German Bundesliga 1, and Spanish Primaera Division. Hence, the international interest in the major clubs in these leagues is extraordinary as the vignette in Figure 2-2 illustrates.

Figure 2-2 A Globalization Vignette: 360 Million Watch a Routine Premier League Soccer Game

Everton Football Club is located in the city of Liverpool and the soccer club has played in the English Premier League for 100 years, which is longer than any other team. In recent years it has tended to finish in the lower rather than the upper half of the 20 team league, but has avoided relegation (the bottom three teams each year are relegated from the Premier League to the Division I League, and replaced by the top three teams from the Division I League).

Despite the team's distinguished heritage and pedigree, the lack of recent success made obtaining shirt sponsorship challenging. Eventually they signed an agreement with Kejian, which is a Chinese mobile phone company. Soccer fever had taken hold in China after the national team qualified for the World Cup for the first time in 2002. The team lost all three games it played, but China's youth were taking up soccer faster than any other sport and enthusiasm was high. As a condition of their multi-million dollar annual fee, Kejian acquired not only the shirt sponsorship, but also required that Everton include two players from the Chinese national team as members of their playing squad! In addition to generating awareness in England of their company, Kejian also wanted to win the affection of the tens of millions of soccer fans in China for helping two of their players break into one of the world's major soccer leagues for the first time. Thus, Li Tie and Li Wei Fung arrived at Everton!

The Everton coach was skeptical and unhappy that his front office had foisted onto him two players whom he had never seen or heard about. However, Li Tie was the best and most well-known player in China, while Li Wei Fung was also a member of the national team. Li Tie's autobiography sold 100,000 copies in China within two weeks of its release and he enjoyed "iconic status of a demigod." The Chinese sent media representatives to England to cover the players' progress. Li Tie turned out to be a fine player—good enough to play regularly in the Everton team.

Four months into the nine-month, 38-game season, Everton played Manchester City, another team positioned in the middle of the Premier League in what would normally be considered a routine game arousing little interest beyond the fans of these two clubs. However, after seeing Everton's success with Li Tie, Manchester City signed Sun Jihai who was the second most well-known player on the Chinese team. A host of Chinese journalists made the 6,000 mile trip for the game and it was shown on CCTVS, the state-owned national sports channel. The game was watched by 360 million people!

Fortuitously, there was a large Chinese community in Liverpool. Liverpool is twinned with Shanghai while its Chinatown is the oldest in Europe, dating back to the late 19th century. Just as the shipping industry first induced Chinese sailors to settle around the city's busy docks, so soccer became the city's new Sino-British link. Tens of millions of Chinese became fans of Everton! Everton immediately became the biggest player in the rapidly emerging Chinese soccer market, which has potential for generating substantial sales from sales of replica uniforms and club paraphernalia.

For the Manchester City game, Kejian flew dozens of Chinese executives to the game where they enjoyed the hospitality of both the company and the club. The club has sold a dozen luxury suites to companies that do business in China. One of these companies' CEOs said, "One of the first things Chinese business people say to me when they come over is can I get them tickets to the Everton soccer game? My box is always full."

There were 191 million mobile phones in circulation in China but most young people wanted Nokias, while Kejian was seen as a bit uncool. Li Tie and the association with top-flight soccer changed all that. Kejian now has the image of being cool and the phone to buy in China, and the company has gained valuable exposure to new markets in Europe.

Source: Adapted from Kay, O. (2002). All quiet on Western front for pioneer Li. *The Times,* August 24.

Emergence of Women's Professional Sports Leagues

Women's sports emerged as a component of the professional sports mosaic in North America over the last half of the 1990s. The talent pool produced by the achievements of Title IX, the resultant success of women's national teams on the world stage at the summer and winter Olympics, and the 1999 Women's Soccer World Cup provided impetus for the launch of several women's sports leagues. The seminal event in the history of women's sports in the United States was probably the national team's dramatic penalty-kick shootout victory over China in the Women's World Cup final in 1999. With an estimated 36.6 million U.S. viewers, this was the most watched soccer match in the history of U.S. network television, and the crowd of 90,185 at the Rose Bowl was the largest ever for a women's sporting event. By comparison, the combined viewership on ESPN and ABC of the live and taped telecasts of the U.S. men's soccer World Cup quarter-final game against Germany in 2002 was 6.8 million viewers, even though this was the best ever performance by a men's U.S. team in the World Cup.

In the late 1990s, new women's leagues were established in basketball (WNBA and the now-defunct American Basketball League), soccer (WUSA), and softball (WPSL); and plans for a professional hockey league in the United States and Canada are under consideration. A crucial factor in both the development and sustainability of these new properties has been corporate support. Women's sports properties accounted for $600 million of the $4.5 billion that corporations spent on sports in 1999.[20] Corporations began to realize that women's sports could provide a highly effective platform for reaching women, who make 80% of a household's purchase decisions in the United States. As the Executive Director of the Women's Sports Foundation asserted, women are now serious consumers of sport who are "no longer watching soap operas and talk shows from 10 a.m. to 2 p.m."[20] Indeed, in the United States more than half of women now engage in some form of regular exercise, and one third of all high school girls participate in one or more varsity sports.

One sports property that has flourished as a result of corporate America's growing interest in aligning with women's sports has been the Ladies' Professional Golf Association (LPGA). The women's golf tour experienced a remarkable increase in corporate support over the last decade, with sponsor-supported prize money more than doubling from $17.1 million in 1990 to $36.2 million for the 2000 season.[21] Although the LPGA continues to grow, the experience of the WNBA and the WPSL indicates that women's sports properties will continue to struggle to find a secure niche in a cluttered sports marketplace. After a successful debut season in 1997, the NBA-owned WNBA found it difficult to maintain its initial momentum. During the 2000 season, league-wide attendance slipped 11%, and the league reportedly continued to lose money.[22] On the plus side, however, television ratings, although modest, grew 5% during the league's fourth season, and the WNBA was able to add six new corporate sponsors. Since its inception, the league has steadily expanded from its original 8 teams to 16 teams in 2001.

Analysts are less sanguine about the WPSL's future. The league, launched in 1997 as Women's Pro Fastpitch, has struggled to find its niche in the competitive sports market. Instead of achieving its initial goal of expanding to at least 12 markets to establish a national presence, the WPSL declined from the six original teams to just four franchises by the end of its fourth season. Given its severely contracted state, the league faced major challenges in sustaining sufficient fan and corporate support to ensure its future.

Although women's sports properties offer exciting, more family-affordable entertainment options to consumers than do their more established male competition, their struggles are magnified because they are trying to establish a toehold in an already-crowded marketplace. Finding and connecting with those select individuals in any given market who are most appreciative of, and responsive to, women's sports will be crucial to establishing a sustainable market presence. Demonstrating that women's sports enable companies to meaningfully reach audiences different from those who watch traditional men's sports will be a key towards securing adequate corporate support. Finally, controlling costs in order to ensure the delivery of affordable and accessible entertainment will help to further differentiate women's sports from much of its more established male competition.

Other Successful Sports Properties

Growth over the past 10 to 15 years has not been confined only to team or league sports. Indeed, the fastest-growing sports property of the 1990s was NASCAR. Ticket sales for the stock car circuit in the 1990s increased by 91%, and television ratings increased over 40% from 1996 to 1999.[23] The latter achievement is most notable because this growth occurred during a period when overall TV viewing for other sports properties, even the NFL, declined. By 2000, NASCAR had supplanted the NHL as the fourth-largest major sport in terms of gross revenues, which were projected to exceed $3.4 billion by 2006.[23] In 2001, NASCAR began a 6-year, $2.4 billion TV rights deal with Fox and NBC. The agreement, which quadrupled NASCAR's previous television deal, pushed America's prime auto-racing circuit well past two of the big four sports properties. The NASCAR package was almost four times greater than the current NHL television deal and more than twice the value of MLB's contract.[24] The reason Fox and NBC were willing to pay a premium to air NASCAR events is that, by 1999, Winston Cup Races were drawing the second-highest ratings for televised sports, trailing only the NFL.

Another sports property that has become a big financial success in recent years is the U.S. Open Tennis Championships, arguably the single most profitable sporting event in North America. Total revenues grew to $135 million in 2000, with corporate sponsorship support almost doubling from $14 million in 1995 to $27 million by 2000. The United States Tennis Association reported an income of $90.29 million after expenses, so the net operating profit represented 69% of total revenues.[25] The profit margin is remarkable when compared to that of most major league teams, which claim to operate at a loss.

Finally, the late 1990s and early 2000s saw the growth of many new "niche" sports, like billiards, lacrosse, and pro rodeo. These sports attract a small but avid following, and their appeal is often confined to a particular region. Lacrosse, a game historically confined to the east coast and pockets of interest in the Midwest, has established two professional leagues, the indoor National Lacrosse League and the more recently established outdoor Major League Lacrosse (MLL). Again, as with any new sports venture, an essential ingredient for success is corporate sponsor support. With the niche sports, the ability of the property to tap the intensity of the sports fan base is the key to generating sponsor involvement. As one analyst suggests, "The intensity of the fan base is often far more important than its actual size."[26] MLL was able to leverage the league's natural appeal to lacrosse enthusiasts in signing its first three major sponsorship deals with Sports Helmets, Great Atlantic (a lacrosse catalog), and stick maker Warrior Lacrosse for more than a million dollars.[27]

Complementing the extensive involvement of corporations has been the evolution of cable television as the second key element in the growth of niche sports. Cable channels such as ESPN, ESPN2, and the 13 regional sports networks around the country are in constant need of new programming to fill their 24-hour schedules. For example, it was anticipation of the expansion of professional rodeo into network television that persuaded the owner of the MLB Texas Rangers and NHL Dallas Stars to buy the Mesquite rodeo in 1999. (Mesquite is a suburb of Dallas.) His instincts were verified in 2001 when the Professional Bull Riders World Challenge event graduated from ESPN2 to NBC in the fall of 2001.[28] The demand to fill cable programming has created attractive exposure opportunities for other niche sports like track and field, bowling, and bass fishing on a national level and for lacrosse and roller hockey on a local or regional level.

The long economic boom period of the 1990s and consumers' willingness to spend and watch sport in record levels, along with cable networks' almost insatiable appetite for sports programming, combined to foster an unprecedented environment for the growth of sports in the United States and Canada. At the start of the new millennium, over 800 professional sports teams were operating in North America, almost double the number in existence in 1990.

The Economic Reality of Professional Sports

In 2001, the estimated total market value of the 123 franchises across the four major leagues in the United States and Canada was approximately $30 billion,

Figure 2-3 Economic Value of the Major Leagues

Major League Baseball
Founded: National League in 1876. American League in 1901.
Teams: 30. *Commissioner:* Bud Selig. *Gross Revenues:* $2.79 billion.
Net Worth: $6.55 billion.

National Hockey League
Founded: 1917. *Teams:* 32. *Commissioner:* Gary Bettman.
Gross Revenues: $1.82 billion. *Net Worth:* $3.75 billion.

National Football League
Founded: 1920. *Teams:* 32. *Commissioner:* Paul Tagliabue.
Gross Revenues: $3.51 billion. *Net Worth:* $12.80 billion.

National Basketball Association
Founded: 1946. *Teams:* 29. *Commissioner:* David Stern.
Gross Revenues: $2.1 billion. *Net Worth:* $6.01 billion.

more than doubling their market value in 1990. The relative economic valuation of each league is shown in Figure 2-3. The cumulative revenues generated by teams in the big four leagues in 2001 edged over $10 billion.

Despite their value and the magnitude of their financial resources, a majority of teams *claim* they are *losing* money on an annual basis. Consider the following data:

> Since 1993, net income has steadily declined across all leagues except for the NFL; the average net earnings reported in 1999-2000 were just 4%.
>
> Seventy-five percent of the teams in the NHL and 70% of the teams in MLB reported finishing in the red in 1999-2000.
>
> Since 1994, MLB claims to have lost between $200 to $300 million each year. During the 2000 season, NHL teams reported their aggregate loss was $150 million.[29]

Although discussion in this chapter focuses on the U.S. major leagues, most of the issues discussed are generic among major professional sports leagues across cultures. For example, the 20-team English Premier Soccer League reported revenues of $2.4 billion in 2001 compared to revenues of $255 million in 1992. The leading U.S. sport economist observed, "The English Premier League is roughly comparable to MLB, the NBA, and probably behind only the NFL in profits per team and average franchise value, while its best teams are comparable to the best in any league, including the NFL".[30] Despite this apparent level of success and the extraordinary increases in revenues, only 12 of the 20 teams in the Premier League reported operating profits.[30]

Professional sport executives attribute the failure of franchises to make a profit to their inability to generate sufficient revenues to meet the acceleration in operating costs that has occurred in the past decade. However, there are considerable differences in estimates of the profitability of professional sports teams. For example, in 2001 the MLB commissioner announced that the combined operating *losses* of the 30 MLB teams were $232 million, but *Forbes* magazine reported the combined operating *profits* of the teams in that year were $75 million.[32] Many analysts have suggested that major league teams' purported losses are the result of creative accounting and are paper rather than real losses. All agree that whatever the operational financial status of the franchises, their owners enjoy substantial capital appreciation of their assets. These economic reality issues are reviewed in this section.

Revenues Not Keeping Pace With Expenses

The fundamental problem for many teams is that although revenues are rising, costs are increasing at a more accelerated rate. The profit and loss reports of professional sports at the individual team level suggest that a number of teams are facing financial problems. The Anaheim Angels reported more than $42 million in operating losses during the first three seasons of the Walt Disney Company's ownership of the MLB team.[33] Over the same timeframe, from 1997 through 1999, the NHL's Vancouver Canucks reported losses of C$91 million.[34] Surprisingly, many of the teams at the top of their respective leagues are reporting serious losses. One year after winning the NBA Championship, the San Antonio Spurs claimed that the team lost $6 to $7 million in 1999 and projected losses of $30 million by 2002. Even the venerable NFL team, the Green Bay Packers, reported an operating loss of nearly $500,000 in 2000. During the 2000 season, the Packers' expenses, primarily players' salaries, increased at a rate three times greater than team revenues. The Arizona Diamondbacks reported an operational loss of $15.8 million in 2000. In an effort to bring a winning ball club to Phoenix in only its second year of operation, the MLB expansion team doubled its payroll to $70 million in 1999. Despite the team's excellent performance on the field, attendance declined, as did revenues. As a result, the team had to make a cash call of $24 million to its owners/investors in order to meet the Diamondbacks' large payroll.[35]

The Cleveland Indians appears to offer an example of how challenging it is even for successful teams to make money in the current economic environment. After the opening of Jacobs Field in 1996, the Cleveland Indians was one of the most successful teams in all of professional sports. The team presold over 3 million tickets every year. Yet the franchise claimed, in a Securities Exchange Commission (SEC) filing, that only their successful appearance in postseason playoffs allowed them to turn a modest profit. Excerpts from a prospectus filed by the Cleveland Indians with the SEC to offer a $73.6 million public stock sale stated the following:

> Management believes that the Indians' local revenue potential has already been realized, and that future increases in net income, are likely to be substantially less than in the past five years. Without the contribution of post-season playoff revenues, the team would not have produced a profit in 1997.

Creative Accounting

Although league officials and team owners consistently report that their franchises are losing lots of money, the actual extent and magnitude of these claims are difficult to substantiate. Very few professional sport teams are publicly held corporations. Ownership in most cases is mainly in the hands of private individuals, families, or closely held corporations, all of which are under no legal obligation to disclose detailed financial information about their team's operations. Financial experts and players' association representatives repeatedly have challenged the authenticity of the owners' claims of financial distress, claiming that "creative accounting" procedures used by the owners made the teams' financial positions look much worse than they really were.

Baseball teams have been described as "physical embodiments of tax accountants' minds."[36] There are four main legal accounting maneuvers used by team owners to make it appear they are losing money from their investment in the team rather than making money.[37] The result of these strategies is that owners increase their personal wealth from their investments, while submitting financial reports to the Internal Revenue Service showing their teams made losses.

First, owners and their dependents may receive salaries or fees from their teams. For example, in a court case it was revealed that the owner of the Philadelphia Eagles paid himself an annual salary of $7 million. Thus, the owner was making $7 million a year more on his investment than he appeared to be. The team may also purchase services from other companies controlled by an owner, for example, legal, public relations, or information technology services. To the extent that these services are either superfluous or charge more than market rate, the added costs to the franchise are merely revenues retained by the owner via another vehicle.[37]

An owner who controls the team, the stadium, and the team's broadcast and television outlets, or some combination of these, has multiple opportunities to create accounting losses by shifting revenues among the entities. They can be shifted at the owner's discretion to whichever entity best suits the purpose at hand. For example, in a carefully documented case, a former owner of the Florida Marlins claimed the team lost $30 million when winning the World Series in 1997. However, revenues from luxury suites, premium seats, naming rights, parking, signage, merchandising and concessions were all attributed to the stadium that he also owned, not to the team. The estimated revenues from these sources were $36 million. In addition, the value of the media outlet increased by $40 million in that year as a result of the team's success. Hence, the reality was that the team's activities resulted in a net gain to the owner of $46 million, rather than the $30 million loss he reported.[38]

The third accounting maneuver stems from the type of corporate structure used by the franchises. Many of them are "subchapter S" corporations.[37] These are limited to having no more than 75 shareholders, and these corporations do not directly pay income taxes. Rather, the income gains or losses and taxes are computed at the corporate level, but they are passed through to the shareholders and reported by the shareholders on their individual 1040 federal income tax forms according to their proportional share of the ownership. The advantages of this arrangement are illustrated in the following example:

> A partnership of 10 owners contributed equally to the purchase of a professional franchise for $200 million. In a given year, the team reported an annual operating loss of $30 million. Owner A, who was a member of the partnership, had a taxable income of $2 million in that year. He filed a joint tax return with his spouse and so was required to pay $638,000 in federal income taxes on his earned income. However, he also received $3 million in losses as his one-tenth share of the subchapter S corporation's losses. When this is included in his tax return his $2 million taxable income falls to zero. Thus, he saves $638,000 that he would otherwise have had to pay to the federal government in income taxes. Further, he can carry forward the additional $1 million in losses to the following year and use it to offset his taxable income in that year.

A former president of the Toronto Blue Jays reputedly stated, "Under generally accepted accounting principles, I can turn a $4 million profit into a $2 million loss, and I can get every national accounting firm to agree with me."[38] This was a reference to the roster depreciation allowance provided to the owners of professional sports teams, which is the fourth legal accounting procedure used to support the façade that most professional sports teams lose money. Under a special provision, called the "Veeck Tax Shelter Convention," the IRS allows owners to claim half of what they paid to purchase a team as depreciation on player contracts. Bill Veeck was an imaginative, pioneering baseball team owner who convinced the IRS that the player roster is like a piece of machinery or building that wears out over time, so like these items, the roster should be depreciable over time.[37] Specifically, the owner can assign 50% of the franchise purchase price to player contracts. Then, for tax purposes the roster can be treated as a declining or "wasting" asset, depreciating the value of the contract over a 5-year period. The following illustration clarifies how an owner can take advantage of this tax sheltering provision:

> Suppose someone buys an NFL team for $200 million. The new owner assigns 50% of the purchase price to player contracts, (the maximum allowed under the law), that is, $100 million, and then depreciates the contracts over five years at $20 million per year. Suppose that revenue is $100 million per year, and that costs, exclusive of player contract depreciation, are $90 million. Then, for the first five years of operation of the team, the books of the team will look like this:

Revenue	$100 million
Less Costs	$ 90 million
Less Depreciation . . .	$ 20 million
Pretax profits	- $10 million

The depreciation of $20 million is simply a bookkeeping entry with no actual cash expended to cover this expense, so a $10 million profit is transformed by legitimate accounting procedures to a $10 million pretax loss. However, the owner will have revenues of $10 million in his or her pocket. Some analysts believe that this tax-shelter enhances the after-tax return to an owner to such an extent that it increases the value of a team by as much as 40%.

Capital Appreciation

In addition to the special tax benefits they receive, owners of sports teams have been able to count on steep increases in the market value of their teams. Historical records of franchise sales indicate that team sales prices have increased at double-digit rates over the past 30 years. In 1920, George Halas paid $100 for the Chicago Bears. In a more contemporary context, in 1984 the owner of the Denver Broncos paid $70 million to purchase the team. A decade later, the Tampa Bay Buccaneers were sold for $197 million. By 2001, according to *Forbes* magazine, all three of these NFL franchises were estimated to be worth around $500 million.

As Table 2-3 indicates, huge capital gains are not confined to NFL teams. From 1995 to 2001, the average value of MLB teams *increased* by $179 million, at an annual rate of appreciation of around 19%. Both the NBA and NHL also demonstrated impressive double-digit gains. As one commentator noted:

> Team values have risen quite handsomely and this doesn't happen, typically, to assets that lose money over time. Just as typically, very wealthy people do not line up to gain access to an asset priced at hundreds of millions if they anticipate large losses.[37]

Although the cost of ownership continues to rise steeply, it appears that there are still more wealthy individuals interested in buying teams than there are available franchises. As long as demand exceeds supply, the value of professional sport franchises will continue to climb. Although so-called psychic income benefits (e.g., prestige, status, fame, fun) remain as compelling motives for team ownership, contemporary owners of professional sport franchises also recognize that well-managed sport properties afford them abundant tax-sheltering benefits and the prospect of an attractive return on investment over the long haul.

The Leagues' Declining Health

Three issues are indicative of the declining health of the major leagues: falling attendance, declining ratings, and an economic disconnect with their fan base. Each of these issues is discussed in this section.

Falling Attendance

Almost half of the teams in the four biggest leagues reported flat or declining attendance in 2001-2002. During the 2002 MLB campaign, almost 40% of the league's total seating inventory went unsold. Indeed, in 2002, 22 of the 30 MLB

Table 2-3 Average Value of League Teams From 1995–2002 (in millions)

League	1995	1996	1997	1998	1999	2000	2001-02	$ Diff	% Annual Increase
NFL	$160	$177	$202	$285	$380	$423	$531	+$371	20.1%
NBA	$113	$127	$150	$170	$183	$207	$223	+$110	12.0%
MLB	$107	$111	$115	$134	$194	$233	$295	+$188	18.6%
NHL	$ 71	$ 74	$ 90	$125	$135	$148	$157	+$ 86	15.1%

Sources: Information compiled from *Financial World, Forbes Magazine,* and *Sports Business Journal* articles published before February 2003.

clubs reported attendance declines, with 10 of those teams posting double-digit losses (ranging from -11.3% to -38.8%) when compared to the 2001 season.

In the 2001-2002 season, the NBA experienced its first increase in overall attendance since 1997-1998. Although league attendance was up a modest 1.2% in 2002, the increase reversed a 5-year trend in which the NBA's average attendance had fallen by about 2%. However, during the 2001-2002 season, 12 of the NBA's 29 teams showed declines.

The NHL also showed a modest resurgence in fan interest in 2001-2002, reporting a league-wide increase of 1.2% over the previous season. Although encouraging, this improvement still left the league short of attendance levels achieved in the mid-1990s. Attendance eroded steadily over the last 4 years of the 1990s, with the league-wide percentage of capacity figure falling from 93% in 1996-1997 to a low of 88.9% during 1999-2000. The positive step in 2002 (overall, the league sold 91.5% of its seating inventory) is particularly important for NHL teams because they are dependent on gate receipts for 60% of their total revenues. Twelve of 30 NHL teams reported attendance declines in 2001-2002.

Only the NFL has been able to sustain consistently high attendance levels through both the 1990s and 2000s. In most markets, NFL teams benefit from the basics of supply and demand. With a smaller inventory of games to sell (10 total, including 2 preseason and 8 regular-season home games), and a large and enthusiastic fan base in most markets, many NFL teams have been able to sell consistently over 95% of their available seating capacities. However, not every NFL team has been impervious to attendance problems. Over much of the 1990s and early 2000s, the Raiders both in Los Angeles and in their present location in Oakland (relocated to Oakland in 1995), as well as the Arizona Cardinals in Phoenix and the Seattle Seahawks have struggled to fill all the seats in their stadiums. What may be more troubling is the rising number of "no-shows" (no longer reported by the league) in many NFL stadiums. An example is the Carolina Panthers, who, in only their third year of operation, saw an average of more than 7,000 no-shows per game. That was a 317% increase in empty seats compared to their inaugural season.[37] No-shows are those fans who have purchased tickets but, for whatever reason, do not attend the game. Although the team does receive ticket revenue from the pre-purchased ticket sales, it does not benefit from the additional spending associated with game attendance from such sources as parking and concession sales. As will be discussed in later chapters, these ancillary sources of revenue can be considerable.

Declining Ratings

Most league executives, particularly in the NFL and NBA, profess relatively little concern about stagnant or sagging attendance, proclaiming that the typical fan is now a television fan. Certainly, more sports programming is available on free or cable television than ever before. With the emergence of regional sports networks to compete with ESPN's delivery of around-the-clock broadcasting, fans now have unprecedented opportunities to watch their favorite teams. Although the four major networks devote an increasing portion of their programming to sports—which in aggregate exceeds 2,000 hours each year—unfortunately, fewer viewers appear to be watching games involving teams from MLB, the NBA, NHL, or NFL. Ratings for all four leagues have been sinking for the past decade.[41] Between 1987 and 2000, ratings for MLB were down 30%; for the NBA, 14%; and for the NFL, 22%.

At least two plausible explanations have been offered for the ratings decline. Some, like the president of the NFL, believe the glut of entertainment options increasingly available to fans has diluted network numbers. There are more people watching sports on television, but they are watching it on a lot more channels. According to him, "The sports fan has so many choices now, but when you compare our ratings to the rest of network television, we are still delivering the numbers you can't find elsewhere."[41] Indeed, the NFL's approximate 25% household share (for regular-season games) is unmatched by any other sporting event with the exception of the Summer Olympic Games.

Economic Disconnect

A more ominous explanation for the league rating declines is that working-class and middle-class families, the traditional bedrock fans of professional sports, are gradually losing interest in watching major league games because they no longer can afford to attend them. There is ample evidence of a growing economic disconnect between professional sports and most Americans. Table 2-4 shows the steady and substantial increase in the cost of attending games across all four leagues. Using the Fan Cost Index (FCI) created by *Team Marketing Report,* which estimates the average cost for a hypothetical family of four to attend a professional team sports event, comparisons are provided for the major leagues over an 11-year period.

Table 2-4 The Rising Cost of Attending Major League Sports

League	1990-91	'02–03	% Change
MLB	$ 77.41	$148.61	+ 92%
NBA	$138.82	$254.88	+ 84%
NFL	$152.55	$290.41	+ 90%
NHL	$132.62	$240.43	+ 81%

*Based on fan cost index (FCI) calculated by TMR to represent average cost for family of four attending a major league game. (2 adult and 2 child's tickets, 4 sodas, 4 hot dogs, 2 beers, 2 programs, 2 caps)

Sources: *Team Marketing Report* (through April 2003) and *USA Today,* January 22, 1998, p. 3C

The results show the price of attendance rising four to six times greater than the rate of inflation. The NBA and NHL lead the way, with more than 100% price increases over the decade. In 2002, at an average of $50.10, the cost of a ticket to attend an NBA game had eclipsed that of all of the other leagues, but the NFL and NHL were not too far behind, with ticket prices averaging, $50.02 and $49.86, respectively. For a family of four to attend an NHL ($274.66) or NFL ($290.41) game during the 2002 season amounted to about 30% of an average household's weekly earnings. Even MLB, which takes pride in being pro sports' biggest bargain, raised its cost of attendance by 88%. It is clear that attending a live major-league sport event is now beyond the reach of most of the population. Indeed, 9 of 10 Americans say ticket prices are so high that it is difficult for them to attend a professional sporting event.[10]

Data confirm the increasingly narrow demographics of those attending big-league games. They indicate that middle-income and blue-collar fans have been replaced by more affluent spectators. A columnist proclaimed, "Going to ball games is becoming a perk of the new rich."[42] His proclamation is given credence by a report indicating that the average household income of Washington, DC, area residents attending Baltimore Orioles games was $87,500,[43] hereas the average household income of those residing in the Baltimore-DC area is around $53,000.

It was reported that although there was a 10.1% decrease between 1995 and 2001 in the number of spectators at MLB games whose household incomes ranged from $30,000 to $49,999, there was a 67.9% increase in the number whose household incomes ranged from $100,000 to $149,999.[32] Other compelling evidence indicating the gentrification of big-league baseball appeared in *American Demographics.*[44] Analysis found that adults with household incomes of $75,000 and above were 72% more likely to attend MLB games than were households with aggregate incomes of less than $35,000. When only such a narrow segment of the market (13.6% of households had incomes in excess of $75,000) can afford to attend professional sporting events on a regular basis, it is not surprising to find fan interest dissipating for both live and televised offerings of major league sports. It has been suggested that the greatest danger facing professional sports is fan apathy.[41] For example, a 1998 *Los Angeles Times* poll reported that almost two thirds of respondents did not consider an NFL team in the Los Angeles area to be of any importance to them.

With ticket prices displacing all but the most affluent consumers, teams—particularly in the NBA and NHL—have devoted an increasing proportion of their seating inventory to corporate ticket buyers. A survey conducted by the NBA's Minnesota Timberwolves found that 62% of season tickets sold in the lower bowl of their arena were owned by corporations.[40] Although teams may be able to sell an increasing share of their most expensive tickets to businesses, the trend leads to other problems. It has been pointed out that

> the corporate fan, who has replaced the core fan, is a fickle beast, choosy about which game he'll use his precious free time to attend. Mid-week against the Milwaukee Bucks, or the Nashville Predators? That's a pass. If the suit bothers to give the tickets away, he's likely to hand them over at the last minute to some secretary in Personnel, who might prefer to be home watching Regis make people sweat.[40]

It's no wonder, then, that no-shows are a growing concern to the major leagues. Some teams, like the NBA's Charlotte Hornets, were filling less than half the number of seats that were actually sold late in the 2002 season.* Sold but unfilled seats or unused tickets can have serious financial repercussion because "when no one is in that seat, not only do we lose the value of the ticket, we lose concession money, merchandise money, and program money."[40]

Although pricing is a serious issue facing the managers of professional sports teams, a poll commissioned by *Sports Illustrated* indicates there are a number of other serious issues that managers must address (Figure 2-4).

* At the end of the 2001-02 NBA season, the Hornets' franchise relocated to New Orleans.

Figure 2-4 Reasons Fans Stay Home

SI commissioned the Peter Harris Research Group to conduct a scientific national survey of sports fans on issues related to attendance at MLB, NBA, NFL, and NHL games. The 874 fans polled attended an average of 10.3 pro or college basketball or football games in the past year and 39.5 games in the past five years. The top 10 reasons, with percentages of fans citing them, that made respondents less likely to fill a seat at a sporting event:

Total cost to attend	57%
Comfort of watching games at home	41%
Players' behavior during games	41%
Traffic and parking	38%
Increase in sports on TV	35%
Lateness of games	26%
TV replay and analysis	22%
Unlikelihood of getting good seats	19%
Change in how local team is doing	14%
Change in family's interest in game	13%

Controlling Player Costs

The single greatest operational expense for major league teams is player costs. Player payroll costs represent about two-thirds of the total operational expenses incurred by teams.[45] Salary increases during the 1990s in every major sports league were extraordinary. As Table 2-5 illustrates, the NBA led the way. In 1991, the average NBA player was almost a millionaire. Ten years later, the average had more than trebled to $3.53 million. From 1990 through 2001, player salaries increased more than 2-1/2 times in all four major professional leagues.

The deputy commissioner of the NBA declared, "We have an economic system that we think is out of whack."[29] This declaration was not a revelation to those who owned or operated those franchises. The owners are ultimately responsible for paying the players' salaries, but the chairman of the Chicago White Sox and Bulls expressed frustration at the lack of constraint demonstrated by fellow owners by commenting, "In paying ballplayers, we are at the mercy of our *dumbest* competitor."[29]

Each of the four major leagues has attempted, with varying degrees of success, to bring spiraling salaries under some form of control. The varying systems, involving "hard" and "soft" salary caps, free agency constraints, and luxury taxes, have all been designed to act as a "drag" on the rapid inflation of player salaries. In every instance, however, owners' efforts to impose a constraint on roster costs have met with fierce resistance from the collective bargaining unit or players' association representing the interests of players in each of the leagues. Every league endured at least one labor conflict over the past decade. Major League Baseball has led the way with six lockouts or strikes since 1972. The following sections provide

Table 2-5 League Salary Increases From 1990-91 to 2002-03

Year	MLB	NFL	NBA	NHL
2002-03	$2,555,476	$1,316,000	$4,540,000	$1,640,000
1999-00	$1,938,849	$ 996,000	$3,170,000	$1,350,000
1997-98	$1,341,000	$751,000	$2,600,000	$1,200,000
1993-94	$1,012,424	$645,000	$1,350,000	$ 430,000
1990-91	$597,537	$351,800	$ 990,000	$ 320,000
Increase	328%	274%	360%	413%

Sources: National Football League Players Association, National Basketball Players Association, National Hockey Players Association, Associated Press.

an overview of the current state of each of the major leagues with respect to their ability to control or constrain player salaries.

National Football League

In 1993, the NFL owners signed a collective bargaining agreement (CBA) with the NFL Players Association ending a 5-year labor dispute. Under the agreement, for the first time, players whose contracts had expired were allowed the right as "free agents" to move to a team willing to make the best offer. In exchange for free agency, the players and owners agreed to a salary cap under which teams were restricted to spending not more than 64% of the league's "designated gross revenues" on player salaries. (In effect, this pool of money included the combined gate receipts of NFL teams and the monies from the league's national television contract.) The CBA also established a minimum, guaranteeing players no less than 58% of the designated revenues. The salary cap or payroll maximum in 1994 was $34.6 million. As league revenues have grown, so has the amount teams can pay their players. By the 2002 season, the salary cap had reached $71.1 million, up from $64.5 million in 2000.

Players, however, or more accurately the agents representing players in contract negotiations, were able to circumvent the imposed salary ceiling shortly after the CBA agreement went into effect. They negotiated a loophole, sometimes referred to as the "Sanders Provision" after Deion Sanders, the first player to secure the arrangement. It allows teams to pay players substantial up-front signing bonuses, but count only a small portion of the bonus payment toward their cap. Teams are allowed to prorate the amount of the bonus over the length of the player's contract. So hypothetically, let's say Deion Sanders signed a $50 million deal with the Washington Redskins for 5 years, including a $10 million signing bonus. For cap purposes, even though the Redskins could have paid Sanders as much as $18 million in Year One of the agreement-$10 million up-front bonus and $8 million in salary (assuming a salary payment schedule of $8 million per year for 5 years for a total of $40 million)-the team would only have to count $10 million against their cap ($8 million in first-year salary and $2 million as a pro rata share of the signing bonus). Although the team actually paid out $18 million, due to the signing bonus loophole, it had to charge only $10 million toward the team's salary cap. This is why the Washington Redskins' team payroll in 2000 was $88 million, which was

Table 2-6 A Comparison of the Annual Average NFL Caps and Team Salaries

Year	NFL Cap ($ millions)	Ave. Team Salary ($ millions)
1993		$39.3
1994	$34.6	37.0
1995	37.1	42.5
1996	40.7	45.7
1997	41.4	43.4
1998	52.4	61.4
1999	57.3	65.8
2000	62.2	

Source: *Sports Business Journal,* January 31, 2000, p. 30.

over $25 million above the NFL's cap. The team had a total base salary expenditure of $31 million and signing bonus payments of around $56 million.[46]

The data in Table 2-6 show that the average NFL payroll exceeds the cap every year. However, it should be noted that these are average data, and an examination of individual cases shows wide variation ranging from far below the cap to others far above it.[37]

What allows some teams the ability to maintain salary expenditures well above the cap is that some NFL owners have been able to generate significant additional income that does not have to be shared as part of league-wide revenues such as income from luxury suites, concessions, naming-rights deals, and in-stadium signage. So, for example, because the Redskins play in a stadium owned by the team that generates close to $100 million in annual revenues, most of which is exempt from the league's shared designated gross revenue system, the team is capable of paying the huge bonuses that do not count entirely against the cap.[46]

Although teams that play in lucrative stadiums have an economic advantage, the league's underlying economic structure has created substantial financial parity among NFL franchises. The NFL has the greatest amount of revenue-sharing among its owners, where as much as 77% of the total revenues generated by the league is shared among its 32 teams. Revenues from the NFL's national television broadcast contract alone provide each team with a substantial annual payout. Over the course of the 8-year television deal, each NFL team will receive an equal share, progressively growing to $85 million by the final year of the agreement in 2005.

In 2001, the NFL changed its gate revenue sharing plan. Previously, gate revenues from each game were shared equally between the home and visiting teams. The post-2001 arrangement required 40% of each game's gate revenues to go into a common pool from which each team in the league received an equal distribution, whereas the remaining 60% was shared equally by the home and visiting teams. The effect was to reduce both the contributions made to the collective welfare by the high-gate teams and the revenues received by the low-gate teams. This was done to increase the incentive of low-gate teams to improve their revenue performance.[37]

The result of the extensive revenue sharing in the NFL is that it is the healthiest of all the major sports leagues in North America. Because it has the greatest financial parity, the NFL also benefits from having the greatest competitive parity. During the 1999 season, 13 of the league's then-31 teams finished with records between 7 wins and 9 losses and 9 wins and 7 losses.[47] The NFL has the highest and most consistent team valuations, the strongest television ratings, and the most ardent fan following.

In the spring of 2001, the *Los Angeles Times* newspaper released confidential information about the financial performance of every NFL team from 1995 through 1999. Subsequently, the NFL data originally placed on the *Times* website was republished in full by *Sports Business Journal.*[48] The data, representing the actual audited financial statements of all 31 (at the time) NFL franchises, had been entered in evidence in a trial held in Los Angeles between the NFL and the Oakland Raiders in a dispute over whether the Raiders or the league held franchise rights to the Los Angeles market. The financial statements provided a detailed breakdown of each team's revenues, expenses and net operating income over a 5-year period. While too voluminous to republish in this book, readers interested in gaining an in-depth understanding of the economics of the NFL are encouraged to carefully review the team performance data reproduced in the *Sports Business Journal.* To date, the NFL data provide the most complete and credible information on the financial performance of a professional sports league in North America.

National Basketball Association

After remarkable growth through most of the 1990s, the NBA luster faded somewhat in subsequent years. With the retirement of mega-star Michael Jordan and his magical championship run with the Chicago Bulls in 1998 and the labor dispute that led to the cancellation of 464 league games in 1999, league attendance steadily declined, TV ratings sank to the lowest in years, and merchandise sales plummeted.[49] According to some analysts, at least two thirds of the league's 63% slide in playoff television ratings through 2000 could be attributed to Jordan's retirement.[50]

After negotiations over a new collective bargaining agreement (CBA) collapsed in June 1998, NBA owners locked out the players for the third time since 1995. The struggle occurred over how much of the league's $2 billion in gross revenues would be shared with the players. The NBA claimed that the league operated at a deficit during the 1997-98 season for the first time in almost 20 years. League officials attributed the steady decline in the league's operating profits to rapidly escalating player salaries, which in 1997-98 amounted to 57.2% of the league's total revenues. Under the existing labor contract, the players' share was projected to reach 61% during the 1998-99 season. Negotiations stalemated when the owners wanted to impose a fixed limit on salaries at 48% of the total NBA revenues. The NBA Players Association held out for a 60% share.

After a 190-day lockout, resulting in an abbreviated 50-game season (regularly 82 games), the NBA and its players reached a settlement in January 1999. The new

6-year CBA ensured players would receive no less than 48% and no more than 55% of the league's pooled revenues, referred to as "Basketball Related Income." Most important to the owners, the new agreement afforded teams greater financial stability by setting caps for maximums on the salaries players could earn based on the number of years of service they had in the league. Under the new agreement, players with 0 to 5 years of NBA service were capped at $9 million per season; players with 6 to 9 years of league experience were capped at $11 million; and veterans with 10 or more years of service could earn a maximum of $14 million per season. The new CBA also built in some long-term cost control by setting a fixed or maximum limit on salary increases at 10%. In an effort to encourage roster stability, however, the agreement stipulated that a player re-signing with his existing team could receive a pay raise of 12.5% per year over the length of his contract. The new agreement, although costly, provided the NBA with a clear advantage over all the other leagues: the ability to control and anticipate its greatest expense, which is player salaries.

Major League Baseball

During the 2002 baseball season, players and owners narrowly averted what would have been baseball's ninth work stoppage in the last 30 years. With only hours to spare before a strike deadline, agreement on a new 4-year collective bargaining agreement was reached. The 2002 agreement represented the first time since 1970 that players and owners accepted a new labor agreement without a strike or lockout. In 1994, negotiations broke down between the owners and the powerful MLB Players Association, resulting in a 7-month strike that led to cancellation of the 1994 World Series and a shortened 1995 season. Heading into the 2002 season, many analysts believed that MLB still had not fully recovered from that damaging labor dispute.[51] In previous negotiations, players had successfully resisted the efforts of owners to impose any kind of serious constraint on salary growth. Unlike the NFL and NBA, MLB had no salary-cap provision, and prior to the 2002 agreement MLB had no real mechanism in place to constrain salary inflation. Consequently, baseball payrolls grew at almost 300% in the 1990s (Table 2-5).

Nowhere is the gap between the "haves" and "have-nots" more evident than in baseball. Over the last decade, the revenue disparity between large-market and small-market teams has grown dramatically. In 2001, the New York Yankees generated over $242 million in gross revenues, compared to the Minnesota Twins' $56 million and Kansas City Royals' $63.7 million—disparities of $186 million and $178.3 million, respectively. For this reason, the Yankees were able to afford a payroll of around $135 million, whereas that of the Royals was $47 million. In all, five teams—Boston Red Sox, New York Mets, San Francisco Giants, Seattle Mariners, and New York Yankees—had revenues above $170 million in 2001. At the same time, five teams—Cincinnati Reds, Florida Marlins, Kansas City Royals, Minnesota Twins, and Montreal Expos—had revenues of less than $70 million. A primary cause of the disparities is local television and radio revenues. For example, the Yankees received about $56.7 million from these services in 2002, whereas the Expos accrued $536,000.[52]

A blue-ribbon panel commissioned by MLB to evaluate the economic conditions and prospects of the league reported that teams with the highest payrolls had won almost all of the postseason playoff series games since the settlement of the 1994 strike. The study found that no team that was not in the top tier or upper 25% of payroll spending won a single World Series game over the previous five seasons. Although, occasionally, relatively poorer teams have successful seasons, like the Oakland A's and Minnesota Twins in 2002, the preponderance of evidence supports a leading baseball analyst's contention that "the single biggest indicator of a team's opportunity for success from one year to the next is whether the team's payroll is among the top few teams in the league. Period."[53]

The competitive imbalance prevailing in MLB is the league's most pressing challenge. A leading sports publication declared that "as many as two-thirds of the teams in major league baseball have no chance of contending for the World Series—now, or anytime soon."[54] Attempts to address the serious disparity have not been successful. The owners' thwarted attempt to institute a salary cap precipitated the damaging players' strike that ended the 1994 season.

Although the 2002 agreement did not institute a salary cap, the new labor pact significantly altered the economic structure of MLB. The settlement substantially increased revenue sharing among teams and imposed a luxury tax on the payrolls of high-spending teams. Specifically the agreement that endures until December 2006 stipulated the following provisions:

> *Revenue sharing.* The plan requires that each team contribute 34% of its local revenues (up from 20% in 2002) to a pool that is redistributed equally to all 30 MLB teams. It is estimated that the increased revenue-sharing provision will transfer $1.032 billion from richer to poorer teams over the 4-year term.[55] The Yankees contributed $50 million in the first year of the agreement, whereas low revenue teams like Oakland and Minnesota were significant beneficiaries, each receiving over $20 million in additional revenue from the redistribution plan.
>
> *Luxury tax.* To place a drag on salaries by the richest teams, a tax was placed on those teams whose payrolls exceed set thresholds. At the start of the negotiations, owners proposed a 50% tax on payrolls above $98 million (including 40-man rosters and benefits). Although initially opposed to the luxury tax, players eventually agreed to a tax on payrolls at substantially higher threshold levels. In 2003, the tax was levied on that portion of a team's payroll that exceeded $117 million. This was raised to $120.5 million in 2004, $128 million in 2005, and $136 million in 2006. The tax rates imposed on teams exceeding the thresholds also varied by year and by the number of times a team violated the threshold, according to the following terms:

Luxury Tax Rates

Threshold Violations	'03	'04	'05	'06
First time over	17.5%	22.5%	22.5%	No Tax
Second time over	30.0%	30.0%	30.0%	30.0%
Third/Fourth time over	40.0%	40.0%	40.0%	40.0%

> Under this arrangement, a team with a payroll of $165 million in 2003 would pay a luxury tax of $8.4 million. The team would pay 17.5% on every dollar it spent beyond the $117 million threshold, or $48 million (17.5% X $48 million = $8.4 million). The monies collected from the luxury tax were earmarked for player benefits and a fund dedicated to developing players in countries lacking organized baseball.
>
> *Minimum salary.* The minimum salary for major league players was increased from $200,000 to $300,000. For players splitting time on minor league rosters, the minimum salary was $50,000.
>
> *Drug testing.* All players were subjected to random drug tests for illegal steroids during the first year of the agreement. If 5% or more tested positive, mandatory random testing would take place over the next 2 years. If fewer than 2.5% tested positive in consecutive years, mandatory drug testing ended. The first time a player tested positive, he went into a treatment program. Repeat violations were subject to penalties ranging from a 30-day to a 2-year suspension.

The new collective bargaining agreement was reached just before this text went to press, so there was not sufficient time to assess the impact of the deal. Most early appraisals were cautiously optimistic about the extent to which the new contract would effectively address baseball's chronic competitive imbalance problem. "This agreement isn't perfect… but it takes real steps to help small-market teams compete with big-market teams"(p. 1D).[56] Another analyst concluded,

> The changes will not dramatically change the sport. But, the modification will nudge the game into a healthier place… The dream that all fans and franchises should carry into spring training, that their team has a fighting chance to win, is a little closer to reality. (p. C1)[57]

One key element to determining the degree to which the new contract will effect meaningful change is the extent to which owners of smaller revenue teams reinvest monies received from revenue sharing into increased payroll. The agreement does not require owners receiving redistributed revenues to spend the money on improving their player rosters.

National Hockey League

The National Hockey League is in the most precarious financial position of any of the major leagues. Like MLB, it has minimal revenue-sharing, but it has no mechanism in place to control salary growth. The league was locked into its collective bargaining agreement until 2004. The existing agreement established a cap only on rookie salaries, set at a maximum of $975,000 per season. The agreement provided few restrictions on free agency. The result was that player salaries grew at a much faster rate than team revenues.

The league's economic troubles have been exacerbated by several other problems.

With a relatively small national television contract (teams received $4.3 million per year at the end of the 1990s, compared to the NFL's $60-70 million), NHL teams depended on gate receipts on average for 60% of their overall revenues. This situation made it particularly difficult for the 14 or 15 teams that experienced attendance declines in recent years. With no provision for sharing gate revenues—home teams keep 100% of ticket sale income—the revenue imbalance has widened among NHL teams.

The financial stress has been particularly acute for the NHL's Canadian franchises. The six Canadian hockey teams have been burdened by a weak Canadian dollar and high Canadian taxes. The purchasing power of the Canadian dollar has slipped 30% in value compared to the U.S. dollar over the last decade. The declining value of Canadian currency has created an especially stressful milieu for Canadian teams. Although the franchises collect revenue in their native currency, to stay competitive with U.S.-based teams they have to pay salaries in U.S. dollars. In early 1999, the currency exchange difference on a $50 million payroll would have been about $20 million. The Montreal Canadiens pay property taxes on their arena of around $10 million per year, which is triple the combined taxes paid by all the U.S.-based NHL teams.[58] There appears to be no relief in sight for the Canadian franchises. In 2000, the Canadian Federal Government withdrew a tax credit plan that would have provided teams C$2 million a year, claiming there was no public support for the plan.

One bright note for the NHL is the television agreement the league signed with ABC/ESPN in 2000. The 5-year broadcast contract through the 2005-06 season pays the league $600 million, a significant increase over its previous contract with Fox, which paid the league $200 million. However, with no meaningful revenue-sharing proposal in sight and the likelihood of uncontrolled salary growth through at least 2004, the short-term financial prospects for many NHL teams look grim. In 1999, it was estimated that 20 of the NHL's then-28 teams were losing money.

It will be interesting to see whether the NHL commissioner's prescription for a "prosperous NHL future" will ever be realized. In his State of the NHL Address in 2000, the Commissioner offered the following plan:

> Continue to increase revenues by moving into even more new money-generating arenas and stimulating interest in hockey internationally.
>
> Slow skyrocketing salaries with judicious personnel decisions and, ultimately, through a new collective bargaining agreement.
>
> Promote, promote, promote to build a younger and broader fan base. [59]

Summary

Professional sports and intercollegiate athletics comprise over 2,000 sports teams in the United States and Canada, which attract over 200 million spectators annually. Both sectors prospered during the 1990s but face difficult financial challenges in the new millennium.

The governance of collegiate sports is shaped largely by financial considerations of cost containment and income generation. Costs exceed revenues for all but a small number of programs, so most athletic departments are reliant on substantial institutional support. The two factors that account for the escalating cost of athletic programs are increases in tuition costs and the mandate for gender equity. Increasing tuition costs means that athletic departments have to fund more money to pay for scholarships. The Federal Title IX legislation mandates that investment in women's sports be equivalent to their proportion of representation in the student body. However, women's sports at most institutions contribute only 5% - 10% of total revenues from collegiate athletic programs. To meet this mandate, colleges have resorted to cutting men's programs as well as adding women's programs because they lack the resources to meet the mandate solely by adding women's programs.

Professional sports enjoyed unprecedented prosperity in the 1980s and 1990s with expansion in the number of franchises in the four major league sports, expansion in all the minor leagues, and the creation of an array of new sports professional leagues. Part of future expansion is likely to take the form of increased globalization. Women's sports are rapidly emerging as a component of the professional sports mosaic in North America, and there has been growth in niche sports, which have a relatively small but avid following. This growth has been aided by the multitude of cable television channels that are in constant need of new programming to fill their 24-hour schedules.

The estimated aggregated value of franchises in the four major leagues in North America exceeds $30 billion, but a majority of teams claim they are losing money on an annual basis because revenues are not keeping pace with expenses. However, many analysts believe that these losses are the result of creative accounting and, in reality, that most of the franchises are profitable. The creative accounting may take four forms: (a) Owners and their dependents may receive substantial salaries or fees from their teams; (b) revenues may be shifted from the franchise to the stadium or media outlets that owners also often control; (c) franchise losses are used to shelter owners' other earned income so income taxes do not have to be paid on it; and (d) the roster depreciation allowance creates a substantial tax shelter. Although the return on investment based on annual operating income may not be obvious, the capital appreciation and profitability of franchises are apparent to all. The value of professional sports franchises has been appreciating at double-digit rates annually for the past 30 years.

Three issues are indicative of the declining health of the major leagues. First, attendances have plateaued or are in decline at many teams. Some of this problem is hidden by official attendance figures that include no-shows, and the number of no-shows is rising. Second, although the four major networks devote an increasing portion of their programming to sports, fewer viewers are watching. Ratings for all four major leagues have consistently declined over the past decade. A third indicator of declining health of the major leagues is the economic disconnect between the ability of the traditional bedrock fans to pay to watch their teams and the rapid rise in the cost of going to games. Attending a live major-league sport event is now beyond the reach of most of the population.

The single greatest operational expense for professional teams is player costs. Salary increases in the last decade have been extraordinary. Each of the four major leagues has attempted, with varying degrees of success, to bring spiraling salaries under some form of control. These efforts have been resisted by the players, and all of the leagues have endured at least one labor conflict in the past decade on this issue. It seems likely the leagues will continue to strive to control and constrain players' salaries.

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