REPORT OF THE ACADEMIC SENATE
TASK FORCE ON INTERCOLLEGIATE ATHLETICS

AUGUST 30, 2010

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PREFACE

The Academic Senate's Task Force on Intercollegiate Athletics (TFIA) was formed in December 2009 pursuant to a Resolution on Intercollegiate Athletics (IA) that was adopted at the November 5, 2009 meeting of the Berkeley Division. A copy of this resolution is attached in Appendix A of this report. In light of this resolution, the Divisional Council charged the TFIA to:

(1) Advise the Chancellor on how to establish a sound, self-sustaining financial model for intercollegiate athletics (IA) as quickly as possible, noting the problem not only of current but also cumulative deficits.

(2) Advise the Chancellor and vice chancellor for development on a long-term strategy for integrating athletics-directed with other forms of philanthropy.

(3) Make recommendations about the proper permanent form of financial and other oversight for IA, including revisions to the organization and charge of the University Athletics Board (UAB), or inclusion within another standing Senate committee. Such recommendations should include specifications for increasing the transparency of IA generally.

(4) Report on its progress at the Spring Division meeting.

Following suggestions from the Committee on Committees, 2009-10 Division Chair Christopher Kutz appointed the following faculty to serve on the task force:

> Calvin Moore, Chair (Mathematics, emeritus), chair of the Committee on University Emeriti Relations, and former chair of the Committee on Academic Planning and Resource Allocation
>
> Margaret Conkey (Anthropology), co-chair of the UAB Subcommittee on Gender Equity
>
> William Drummond (Journalism), 2006/07-2007/08 Division chair and former co-chair of the UAB
>
> Gary Firestone (Molecular and Cell Biology), 2008/09 chair of the Committee on Committees and Faculty Athletic Fellow member
>
> Leslea Hlusko (Integrative Biology), signatory of the Resolution on Intercollegiate Athletics
>
> Stanley Klein (Optometry), member of the Committee on Educational Policy
>
> Christopher Kutz (Law), Division chair and co-chair of the UAB
>
> Katherine Snyder (English), vice chair of the Committee on Admissions, Enrollment, and Preparatory Education

The resolution referred to above passed in the November 5 meeting of the Division by a vote of 91 to 68. Prior to the final vote on this resolution at the Division meeting, a substitute motion, which appears in Appendix B, was put forward by a group of faculty. The motion to substitute failed by a vote of 99 to 58. Subsequent to the November 5 meeting, a letter addressed to Chancellor Robert Birgeneau was circulated among a group of faculty, and it received 143 signatories by the end of December. A copy of this letter appears in Appendix C. These documents are included to indicate the range of opinion among the faculty on the issues about which the task force was asked to opine. The task force itself represented a similar range of opinions in that two members voted in favor of the resolution, three members voted against the resolution (including one who put forward the substitute motion), and three members were either unable to attend the meeting or did not vote on the resolution.

The task force met weekly throughout the spring 2010 semester and continued meeting less frequently into the summer in order to complete its work. In addition to its internal deliberations, the task force met, in some cases on multiple occasions, with: Frank Yeary, interim vice chancellor for administration; Scott Biddy, vice chancellor for university relations (VC-UR); Nathan Brostrom, former vice chancellor for administration and now executive vice president (EVP) for business administration at UC's Office of the President [UCOP]); Sandy Barbour, director of athletics; Laura Hazlett, associate athletic director and chief financial officer; Barbara Davis, assistant vice chancellor for equity and inclusion; Walter Robinson, assistant vice chancellor for undergraduate admissions ; Derek Van Rheenen, director of the Athletic Study Center; Robert Jacobsen, professor and Faculty Athletic Representative designate; and Karl Pister, professor emeritus. The task force made an interim oral report at the Spring Division meeting on April 22, 2010, as per its charge, scheduled an additional question and answer session on the interim report on April 27, and then filed a written interim report with the Senate on June 12. We have sent this interim report out to two leading academic sports economists, Roger Noll (Stanford University) and Robert Baade (Lake Forest College), for comment and review. We note that the interim report of June 12 appears with some very minor edits as the Executive Summary of this report. The present final report concludes the business of the task force.

In March of this year, Chancellor Birgeneau appointed the Chancellor's Advisory Council on Intercollegiate Athletics Financial Sustainability, which consisted of four alumni members and four faculty members. Three of these four faculty members were members of this Academic Senate task force, and the alumni members brought significant experience in business and fund-raising, in addition to their strong ties to campus athletics. The Chancellor's council issued its report in mid-July, and it is available at: http://www.berkeley.edu/news/media/releases/2010/07/12_athleticsreport.shtml. Many of its conclusions closely parallel the recommendations of this Senate task force report that we outline below.

EXECUTIVE SUMMARY

The performance of the Department of Intercollegiate Athletics (DIA) as it seeks its goal of excellence should be judged according to the following three requirements:

- Athletic excellence—The teams must be encouraged and enabled to compete at the top level across the board.
- Academic excellence and integrity—There must be commitment to and accountability for the integrity of the student athletes' academic programs and to their academic achievement as measured by GPA and graduation rates.
- Financial integrity—Expenditures and resources must be matched, and budgets must be met. Financial controls must be in place and financial accountability enforced. Increasing philanthropy to DIA in a way that complements academic development efforts is also an important priority.

In the view of the task force, DIA has done well with respect to the first of these requirements, which reflects the goal of comprehensive excellence as articulated in the 1991 Smelser report, *Intercollegiate Athletics at Berkeley*. DIA has also done well, we agree, with respect to the second requirement. However, the task force concludes that DIA has failed to meet the third requirement for excellence. There has been a long history of failure to match expenditures and resources, of budgets being overrun, and of a lack of financial controls and accountability. One might say that a culture representative of these failings has developed over time, a culture that the current athletic director has inherited but has not yet been able to change.

We judge the most serious problem to be the lack of control over expenses.

Increasing philanthropy to DIA is also an important priority, and will be needed in order to begin to set DIA on a path to financial sustainability.

The task force, therefore, makes the following recommendations:

Recommendation 1

We recommend that the athletic director and the DIA's Chief Financial Officer (CFO) gain control over and limit expenses. The athletic director and CFO must establish firm budgets, reporting protocols, and accountability for those who administer and are subject to these budgets. In short, a change in the culture of DIA is desperately needed. The task force is encouraged by steps already taken including the appointment of a new CFO and by the introduction of new financial management tools; however, we are concerned that no long-term financial plans have yet been proposed to the task force by DIA. We strongly encourage the campus to hold DIA accountable for meeting its budget and avoiding deficits, and to implement the deficit policies to which all other campus units are held.

Recommendation 2
We recommend that athletic teams be assigned explicit budgets at the athletic director's discretion, and that contracts for coaches mandate financial accountability and fiscal responsibility in clear, unambiguous language. We recommend that contracts for senior DIA management and all coaches contain incentives for meeting assigned budgets and sanctions for overrunning those budgets.

Recommendation 3
We recommend that fund-raising be considered an essential part of the job of coaches, and that coaches formally be assigned fund-raising responsibilities, just as academic deans and department chairs have such responsibilities. The coaches should be provided with support in this area from DIA's professional development staff. Appropriate incentives should be put in place for those coaches who do exceptionally well in fund-raising, and appropriate sanctions or penalties should be enforced for those who fail to perform adequately in this arena.

Recommendation 4
We recommend that contracts for senior managers, coaches, and assistant coaches be submitted to the Executive Committee of the University Athletic Board (UAB) for review, comment, and consent prior to being finalized. This review is meant to signal that the UAB is concerned with accountability and transparency in DIA.

Recommendation 5
We recommend that the long-term goal of the campus should be to reduce to zero the yearly funding it provides to DIA, a quantity that our task force calls the "delta."

In discussing the financial details of DIA, we have focused on the difference between its expenditures and its earned income during a given year, which for us means excluding any campus subsidies from that year's income. We identify this number as the year's "delta." The delta represents the difference between DIA's expenses and income; to put it another way, the delta is the amount of money from all sources that the campus uses to subsidize DIA each year. We use this terminology because there has been considerable confusion and opacity on this point both on campus and beyond.

When the Senate first exercised its responsibilities for shared governance concerning the financial state of DIA in 2005, the delta was in excess of $13M. Shortly thereafter, the Senate recommended that the delta be placed on a downward "glide path" that would reduce the delta to under $5M by FY 2012 and to zero by FY 2017. The delta adhered to the prescribed glide path through FY 2008, but veered wildly from that path in FY 2009, rising back up to well over $13M in that year. The task force views the failure of DIA to adhere to the glide path as resulting from inadequate financial management, including the failure to recognize until very late in the fiscal year that there were significant unfavorable variances in revenue and expenses, by which time it was too late to take corrective steps. Some, but not all of the variances could be seen as effects of the national financial crisis.

Recommendation 6

We recommend that, in the short term, the delta be reduced to $5M or less. The majority of the task force (5 out of 8 members) finds $5M to be a tolerable temporary level of subsidy from the campus to DIA. This majority recommends that the campus replace the old glide path with a new "step-down" trajectory for the delta, progressively reducing it by explicitly designated quantities (or "stair steps," if you will) to $5M or less by FY 2014.

A minority of the task force (two out of eight members) recommends that the subsidy be limited to no more than $3M, and that a step-down should be instituted that arrives at that lower limit over the same period of time, i.e., by FY 2014.

One member of the task force recommends that campus support should much more immediately be brought to zero, given that other departments and units on campus (that were not running deficits) were not given a step-down strategy to the severe budget cutbacks in July 2009. Second, in the view of this member, DIA has not provided a financial plan or business strategy that demonstrates a financial need for a subsidy.

The task force unanimously agrees that the delta should ultimately be reduced to zero (see Recommendation 5), but we did not determine how many years beyond 2014 it should take to reach that target.

Recommendation 7

We recommend that the campus and DIA use all available means to achieve this step-down. The financial strategies should include many or all of the following: significant staff reductions in DIA, streamlining of back-office operations, increased media revenues, increased revenues from ticket surcharges, increased philanthropy, and, if necessary, reduction in the number of teams. We recommend, as well, that the Operational Excellence project examine in depth the entire operation of DIA.

Recommendation 8

We recommend that any decisions regarding changes in funding levels for teams or changes in team status program take into account the impact on campus fund-raising more generally. In two meetings with the task force, VC-UR Biddy has emphasized his view that a major reduction in the number of teams or the degree of athletic excellence and success expected of them could put at risk up to $25M annually in donations to the academic enterprise, which would amount to almost 10 percent of the total of such contributions. He suggested that less substantial reductions in IA could result in smaller but still meaningful decreases in donations to the campus as a whole. As well, several faculty colleagues have mentioned to us the importance and significance of athletics in their own fund-raising activities, for example as venue for conversations with potential donors. Given the mixed nature of the scholarly research on the connection between athletic success and fund-raising for the academic enterprise, as well and its marginal relevance to UC Berkeley (in the opinion of many, but not all of the task force members), we recommend that the campus commission a study of the relationship between athletics and academic fund-raising that is specific to the UC Berkeley environment and extant patterns of relations between alumni and campus. Such a study might possibly be a part of a more comprehensive study of donor attitudes and motivations for giving.

We have reviewed the scholarly literature on possible connections between athletic success and donations to the academic enterprise of colleges and universities. The conclusions in general are mixed and of marginal relevance to IA and fund-raising here at UC Berkeley. The literature does not address the effect on donations of a major scope and/or mission reduction in IA, nor the effect on the small number of donors (five percent of the total who account for 95% of the dollar value of donations), nor do they adequately take into account some of the characteristics of UC Berkeley as an institution—it is a premier research university; it averages approximately $250 M in academic donations per year, and it has high expectations for its intercollegiate athletic program. We note here that, in addition to its impact on fund-raising, IA provides other values to the campus—it adds to campus spirit and unity, provides free advertising for the campus, helps in branding, and provides a link and outreach to alumni. These points are developed more fully in the body of the report.

Recommendation 9
We recommend that the campus carefully monitor the financial aspects of constructing the Student Athlete High Performance Center (SAHPC) and renovating California Memorial Stadium (CMS). Because DIA income streams have been pledged as the fund source to service the bonds that have been issued for carrying out these two major projects, the outcome of this funding strategy may have an impact on the operating budget of DIA, and hence falls within the charge to our task force. We further recommend that, in light of the indebtedness that has been incurred for CMS, the campus consider purchasing insurance that would provide some assured assistance with the costs of restoring CMS to productive use after a seismic event. Additionally, we urge the campus to consider specific strategies for how to accommodate this debt payment if other unforeseeable events occur that would impact the Endowment Seating Program (ESP), such as another economic downturn (or failure to adequately recover from the one we are currently in) or a dramatic change in the performance of our football team. Finally, we recommend that, if a substantial endowment is generated by 2043, some of these funds be used to repay the loans that the campus has made to DIA over the years.

We have performed a probabilistic risk analysis using a range of financial assumptions about the degree of fund-raising success in the Endowment Seating Program (see the section on CMS and SAHPC and Appendix G), and the rate of return on investments over the next 30-year period. Under most circumstances, the strategy is predicted to succeed and would leave DIA with a substantial endowment to support operations when the bonds are paid off in 2042-43. Averaging the predicted value of this endowment over the range of assumed rate of return on investment and fund-raising success yields an amount in the hundreds of millions of (2043) dollars. Yet there is a chance, which we calculate at less than 10 percent, that there will be deficit at the end of the process in 2042-43, a deficit that DIA or ultimately the campus will have to clear. The results of our financial risk analysis are generally consistent with the results of the financial risk analyses that the campus has performed. Careful monitoring by the campus over the next 30 years may help to prevent financial shortfalls. We note that once these facilities come on line, there will be added expenses in the DIA budget needed for operating and maintaining them.

It is well-known that a major seismic event on the Hayward Fault could render the stadium unusable for a period of time with a corresponding loss of revenue. Because no probability has been assigned to the potential loss of use and revenue, this risk was not included in our analysis, nor, as far as we know, in the risk analysis done by the campus. As noted above, we recommend that the campus analyze and quantify this risk, and perhaps consider purchasing insurance to cover the loss of income needed to service the bonded indebtedness and the cost of repairs that might be needed as a result from such a seismic event. It is important to note that the financial model for the ESP relies on the football games being highly and regularly attended every season.

Recommendation 10
We recommend that the AD intensify her efforts with the Pac-10 to put in place regulations that would reduce the current "arms race" among Division IA schools that is driving unreasonable increases in expenditures. We further recommend that the Chancellor take the lead in pushing for such regulations in the NCAA to tamp down the arms race on a national basis. The Chancellor should make use of his own prestige and the prestige of UC Berkeley in this effort. We note that, in conversation with the task force, UCOP EVP Nathan Brostrom voiced strong support for such efforts and offered to be of assistance in them.

Recommendation 11
We recommend that current collaborations between the campus development office and DIA fund-raising be maintained and further developed. As part of the Task Force's charge, we were asked to advise on a long-range strategy for integrating athletics-directed forms of philanthropy with those targeted to the academic mission. Our investigations of fund-raising strategies and operations lead us to believe that the interface between athletic-directed and academic-directed philanthropy is currently managed well. There is no evidence, for example, that the development program has ever directed would-be academic donors to athletic programs, as some have feared. In fact, it may be advisable for the DIA, with support and coordination from campus development, to pursue a program of athletics-directed philanthropy more aggressively to help reduce their reliance on a yearly subsidy and adhere to the step-down trajectory toward a delta of zero. We accept the view of VC Biddy that donors to academic and athletic philanthropy have distinct and non-overlapping motivations, and hence we assume that further development of athletic philanthropy will not have adverse effects upon other campus development efforts.

Recommendation 12
We recommend that the Senate continue to exercise its shared governance responsibilities with respect to DIA budget matters through the formation of a special subcommittee of the Committee on Academic Planning and Resource Allocation, consisting of three or four faculty members appointed by the Committee

on Committees, who should serve extended terms. We recommend that this subcommittee file annual reports to the Divisional Council. Further, we recommend that this subcommittee membership overlap with the group of Senate members appointed to the UAB budget subcommittee. We believe that thus integrating the Senate's monitoring of DIA within CAPRA will be more effective than the suggestion of a separate standing committee. Finally, we recommend that this task force, the TFIA, be discharged after filing its final report.

INTRODUCTION AND HISTORY

In 1990, Chancellor Chang-Lin Tien appointed a committee, chaired by Professor Neil Smelser and composed of faculty, administrators, students, and alumni, to chart the future course of intercollegiate athletics at Berkeley and to recommend an institutional mission for this activity. For some period prior to this time, the role and mission of intercollegiate athletics had been unclear and the campus commitment to it ambivalent. After considering and rejecting an Ivy League model for Berkeley athletics, the Smelser committee's final recommendations were unambiguous. They were listed as follows in their report, *Intercollegiate Athletics at Berkeley*:

- A resolve to compete across the board at the top levels of the Pacific Ten Conference; this implies frequent appearances in post-season play and national championship events

- Within this general resolve, an acknowledgment of the special place of the major revenue sports; the general intercollegiate mission cannot prevail unless Cal excels and wins in Football, Men's Basketball, and Women's Basketball.

- An acknowledgment that "across the board" implies a strong commitment to the entire range of field, court, aquatic, and other sports. Many of these sports have competed at the top—some winning national titles—in the past two decades. The competitive level of these sports should be sustained, and that of others elevated. (pp. 11-12)

These themes are reiterated at the end of the report:

> First athletics on campus should be brought to the top levels of achievement on the Berkeley campus. Second this goal should be pursued in ways consistent with Berkeley's enduring commitments to academic values and scholarly pursuits. Third, the Committee regards the goal as attainable through a combination of effective leadership, and sufficient input of resources over the years. (p. 45)

Implicit but unstated in the Smelser report is the simple idea that if Berkeley is to compete in intercollegiate athletics, then the campus should strive for excellence as it does in all of its other endeavors. The Chancellor accepted and implemented the Smelser recommendations effective with the 1991-92 academic year, but there was no record of formal consultation with the Academic Senate. At about the same time, the Congress passed legislation that clarified its intent that Title IX of the Civil Rights Act should apply to intercollegiate athletics. In implementing the report, Chancellor Tien merged the then three separate departments of Men's Intercollegiate Athletics, Women's Intercollegiate Athletics, and Recreational Sport into a unified department under the leadership of the athletic director.

In implementing the provisions of Title IX, several new women's intercollegiate sports teams were added shortly after the merger. The campus chose not to follow the pattern of many other universities that eliminated some existing men's intercollegiate teams when they added new women's sports. Then the campus fielded varsity intercollegiate teams in 24 sports. This has expanded and now Berkeley fields teams in 29 sports—15 women's and 14 men's.[1] The new DIA was also given a yearly allocation of approximately $2M in campus registration fee monies at least in large part justified by the need to increase opportunities for women in compliance with Title IX.

As soon as the DIA set out on its new mission of across-the-board excellence as prescribed by the Smelser report, it began to run deficits above and beyond the registration fee supplement that had been provided. The Smelser report did not focus in detail on the financial implications of their mission statement, and to the extent it did, the scenario presented was unduly sanguine. The general hope was that athletic success in football and men's basketball would increase ticket sales, and that successful institutional branding would result in increased television and other media revenue, sponsorships, and royalties. It was hoped that these revenues, supplemented by a hoped-for increase in donations and endowment income, all managed with effective leadership, would provide sufficient revenue to pursue the stated goals of across-the-board excellence for the other 27 teams, none of which are fully self-supporting. As we know, athletic success has materialized and there have been increased revenues, but they are insufficient for these purposes. The projected rosy financial scenario has certainly not materialized. This state of affairs is, of course, the reason for the appointment of this task force.

We begin our analysis of our charge by examining the current mission statement of DIA from their website calbears.com, which is reproduced as Appendix D. This mission statement certainly captures the spirit of the Smelser recommendations. At this point, the task force sees DIA as having a basic tripartite goal best stated as follows:

- Athletic excellence—The teams must be encouraged and enabled to compete at the top level across the board.
- Academic excellence and integrity—There must be commitment to and accountability for the integrity of the student athletes' academic programs and to their academic achievement as measured by GPA and graduation rates.
- Financial integrity—Expenditures and resources must be matched, and budgets must be met. Financial controls must be in place and financial accountability enforced. Increasing philanthropy to DIA in a way that complements academic development efforts is also an important priority.

[1] According to some documents, UC Berkeley has 27 varsity intercollegiate athletics teams and according to some others the count is 29. The difference arises from how indoor track and field are counted. Indoor track and field has essentially the same roster as outdoor track and field, and allows these student athletes to compete in events year round instead of traditionally only during the spring and summer. If indoor track and field is counted as a separate sport, then we have 29 teams, but if it is not counted separately, there are 27 teams, bearing in mind that men's and women's teams are counted separately. For the purposes of this report, we use the figure 29, since indoor track and field are formally recognized by the NCAA as separate sports.

However, what is left unspecified in the Smelser report, and to an extent in DIA's mission statement as well, is the daunting question of what metrics should be used to evaluate progress toward the achievement of these goals. In particular, what metrics should be used to evaluate DIA? We propose here some metrics for this purpose.

For an intercollegiate athletics program, the best indicator of across-the-board athletic success is the program's standing in the Directors' Cup. At all events, Berkeley has in recent years consistently ranked in the Top 10 among Division 1-A programs in Directors' Cup rankings, and would probably have ranked in the top five if men's crew were included in the rankings. (One could legitimately quibble with the Directors' Cup here because the Directors' Cup does not recognize our success in men's crew and in rugby since these sports are excluded from the overall rankings.) In 2008-09, eight of our 29 teams (including men's crew and rugby) finished in the top five in their sport, and women's swimming and diving won the national championship. In 2009-10, seven teams finished in the top five in their sport, and one, rugby, won the national championship.

But athletic success is far from the only criterion that we should examine. The academic success of our student athletes is critical for the overall success of our intercollegiate athletics program, especially given Berkeley's rigorous educational and research mission. We believe that the indicators of academic success should receive at least as much attention as the indicators of athletic success do. We also believe that there is room for improvement with respect to these indicators.

Academic success begins with admissions policy, which is more of an input variable but no less important a yardstick for excellence. No student athlete should be admitted unless he or she presents clear evidence of a commitment to engage in the academic enterprise of the campus. In addition, no student should be admitted unless there is a strong likelihood based on the student's record to date that the student, with appropriate academic assistance from the Athletic Study Center, and with encouragement and monitoring from his or her coach, will persist to graduation at Berkeley. These prescriptions are provisions in the current Athletic Admissions Policy.

Although only about seven percent of our student athletes are admitted under the regular admissions standards that the campus uses for freshman admissions, more than 70 percent of our student athletes are UC eligible students. This means that they have completed the required array of college preparatory courses mandated by UC, and obtained grades in these courses which, when combined with scores on five SAT examinations, placed them in the equivalent of the top 12.5 percent of California public high school graduates. UC eligible students are guaranteed admission to UC at some campus and program, although not a campus or program of their choice. We hope that both the seven percent figure and the 70 percent figure can be improved going forward.

Another obvious yardstick for the academic success of student athletes is GPA. The GPA profile for all student athletes is somewhat lower than the GPA for all undergraduates, a fact that is not surprising given the admissions data noted above and the significant time demands of their sport placed on the student athletes. The average GPA for all student athletes, which is just about 3.0, is about 0.6 standard deviations below the average GPA of 3.3 for all undergraduates. The standard is computed from the distribution of GPA for all undergraduates. Though the task force would like to see gap between the two profiles reduced as much as possible, it is commendable that our student athletes on average sustain a GPA of B. In any case a better comparison would be with students who work 20 hours per week or more, but such data are not available.

Another output yardstick for excellence involves graduation rates for student athletes. According to our Athletic Admissions Policy, the six-year graduation rate for all student athletes should be as high as the six-year graduation rate for all undergraduates, after one makes a very small correction in the calculation by excluding from the computation those student athletes who leave the university prior to graduation in good academic standing and with one or more years of remaining athletic eligibility in order to pursue a career in professional athletics. The most recent data indicate that the six-year graduation rate of student athletes is around 80 percent while the overall campus rate is very close to 90 percent. Ideally this gap should be narrower. Comparison data from other Public Ivies or with the group of UCB students who work 20 hours per week or more are not available.

Another measure of academic achievement is the Academic Progress Rate (APR) that the NCAA has recently put in place. A score is calculated for each team, which can range from a maximum of 1000 down to lower levels. A score of less than 925 is an indicator of trouble; for instance, the Knight Commission has recently recommended that any team with an APR of less than 925 be barred from postseason competition. All of our teams for 2008-09 have scores above 925, with football at 969, men's basketball at 967, and women's basketball at 980. The average overall for our NCAA teams is 978. Indeed, all our teams, save one, are quite comfortably above 925, with three teams earning the top score of 1000 this year. Our average APR score, however, trails the average APR score at Stanford in the same sports by 13 points, and perhaps more significantly, the UCB average APR score trails the average APR scores in the four comparison institutions that we generally use (the top "Public Ivies": University of California, Los Angeles [UCLA], University of Michigan [UM], University of Virginia [UVA], and University of North Carolina-Chapel Hill [UNC]) by 6 points, again counting the average over only the same sports that UCB fields. Like our six-year graduation rates, our APR numbers are good, but still in need of improvement.

Another test of academic success is assurance that student athletes do not cluster unreasonably in certain majors. Data on majors of student athletes are available and are regularly reported to the UAB. These data do show some modest clustering. For instance, there are higher proportions of American studies and interdisciplinary studies majors among student athletes than among the general student body. Data provided by the Academic Study Center indicate that 15 percent of student athletes major in the sciences or engineering, approximately half of the campuswide percentage of 28 percent. One explanation is that student athletes have significant time constraints compared to the general student population owing to their practice schedules that make it more difficult to enter majors that require the completion of several laboratory classes.

It is clear to the task force that the academic success of DIA as measured by these criteria is respectable, but in need of monitoring and improvement.

Finally, we come to the issue for financial integrity. The DIA mission statement articulates the goal of being a good campus partner. We regard fulfillment of that goal as requiring the ability to manage resources effectively and to match its program to its resources so that it does not impose a financial burden on the campus. In our view, DIA has for many years been failing this criterion for excellence as an intercollegiate athletic program, as we argue in the following section.

THE FINANCIAL STATUS OF INTERCOLLEGIATE ATHLETICS AT UC BERKELEY

In order properly to evaluate the financial performance of DIA, we need to agree on a definition of what constitutes the deficit in DIA. There has been considerable discussion on campus of the DIA deficit, but this discussion has lacked a common agreement on terms. To address this issue, we begin with what we call "earned income," which consists of ticket revenue; TV, radio, and internet revenues; distributions of revenue from the Pac-10 Conference and NCAA; revenue from royalties and sponsorships; revenue from running summer camps; donations specifically designated for intercollegiate athletics, and endowment pay-out from endowment that designated by the donor to be specifically for intercollegiate athletics, as well as from other smaller sources. All of these numbers are listed in documents that the campus files with the NCAA. Earned income excludes student fees (an allocation of registration fees from the campus) as well as other institutional support as listed on the NCAA documents.

On the other side of the ledger are "expenses," which include everything else listed in the NCAA filing. What we then compute is the difference between expenses and earned income for each year and call that number delta. For clarity we use this new term "delta" since other possible terms have been used in the past for different entities, and that has led to confusion. The Knight Commission has adopted this point of view as well, but they label what we call "earned income" as "generated revenues" in their July 2010 report, "Restoring The Balance: Dollars, Values, and the Future of College Sports". See also the Knight Commission October 2009 report "College Sports101", Chapter 3 (page 13).

In summary, delta consists of the sum of three numbers from the NCAA filings: student fees, institutional support, and deficit. This total represents the support provided by the campus to DIA. These are monies that could be used to support the academic enterprise of the campus and are not available for that purpose because of their use to subsidize intercollegiate athletics. We would agree that if the student body ever were to pass a referendum to impose on themselves a campus-based fee dedicated to support intercollegiate athletics, after provision for return to financial aid, we would count those funds as earned income in this calculation since they would not be available for general use. In 1999, there was a student referendum proposing to impose such a campus fee, part of which would go to intercollegiate athletics and part to recreational sports. The students voted this down by a wide margin. In 2006, there was a subsequent referendum on a proposal to impose a fee that would go solely to recreational sports, after provision for financial aid. This referendum passed easily, and these fees currently provide major support to recreational sports

The task force anticipated having access to detailed multiyear DIA revenue and expense statements, including details of personnel costs for DIA, together with projections of these expenses and revenues into the future, all in order to get a solid understanding of the financial operation of DIA. However, despite our requests, no such detailed financial documents were provided to us outside of the single-page Statement of Revenue and Expenditures provided to the NCAA, which, while containing much valuable information, often lumps together unknown categories of expenses totaling as much as $8M into a single category called "other". Therefore, despite the fact that our main charge was to "advise…on how to establish a sound, self-sustaining financial model..., we primarily had to base our recommendations on the publicly available NCAA reports.

We have queried campus and DIA officials about the numbers listed on the NCAA forms showing revenues and expenses and feel reasonably comfortable that there are no substantial hidden subsidies going in either direction between the campus and DIA. One apparent exception requires some explanation. The campus funds approximately half of the budget of the Athletic Study Center (ASC), a unit which reports to the provost but serves student athletes; beginning in FY 2011, the campus will fund the entire budget of the ASC. This represents about a $400K ($800K going forward from FY 2011) subsidy from the campus to DIA per year. However, this amount is offset by an approximately equal flow of funds in the other direction, via athletic scholarships awarded to student athletes that displace some need-based financial aid that would otherwise be provided from campus funds to these students. While it is a complex calculation to arrive at a dollar amount for this displacement, the best estimates arrived at jointly by the Financial Aid and Scholarships Office and DIA have previously placed this number at about $600K. These estimates are from a few years ago and should be updated. This $600K represents, in effect, a subsidy from DIA to the campus that comes close to balancing the ASC subsidy going in the opposite direction.

We are assured that DIA pays full costs of operation and maintenance of their physical plant and is not subsidized by the campus for its facilities. The following table lists the earned revenue, expenditures and the delta for each of the past 10 years, taken from forms that the campus filed with the NCAA.

Table 1
Earned Income and Expenses

Year	Earned Income	Expenses	Delta
99-00	24,085	28,365	4,280
00-01	28,063	31,875	3,812
01-02	27,718	36,307	8,589
02-03	32,208	39,042	6,834
03-04	34,155	45,167	11,012
04-05	40,101	53,174	13,073
05-06	42,836	53,723	10,887
06-07	51,666	61,452	9,786
07-08	56,875	64,275	7,400
08-09	59,072	72,739	13,667

The total expenses can be broken down into individual team budgets, which include salaries for coaches and other staff, travel expenses, supplies, and athletic scholarships for members of that team. Earned income for an individual team includes ticket sales, donations, endowment payout specific to the team, as well as other income specific to the team. A final budget category consists of central administrative departmental support costs, including administrative salaries, other support costs, medical expenses, facilities expenses, etc. Central income includes donations and endowment payout for intercollegiate athletics in general, plus some media revenue, and sponsorships. The net central budget can be viewed as indirect costs as opposed to direct team costs, and can either be kept as a separate category or allocated out to the teams in proportion to their direct team expenses. Which option one uses clearly makes no difference to the total bottom line of the department as a whole. According to data submitted to NCAA, football and men's basketball show surpluses in their direct team budgets, and they also show surpluses after indirect costs are apportioned in proportion to the team's direct costs. According to data from DIA, men's golf breaks even on its direct team budget, but shows a deficit after allocation of indirect costs. All the other teams show deficits in their direct team budgets, and even larger deficits after allocation of indirect costs.

Simple division highlights the fact that the central campus subsidy, or delta, of $13,667K for FY 2009 for 850 student athletes—amounted to over $16,000 per student athlete that year. The total delta for FY 2009 is a substantial sum of money that, had it been available to support the campus academic enterprise, could have served to alleviate the severe budget cuts that were imposed on campus units in the last year. The campus has seen courses canceled, class sizes increased, many layoffs of key staff who support the core mission of the campus, many academic departments discontinuing office telephones for faculty, substandard maintenance of the physical plant, including many leaking roofs. In stark contrast, operating expenses in DIA have increased at about 11 percent annually. Especially given the austerity measures and hardships experienced by the rest of the campus over the last two years, the rapidly expanding operating budget for DIA indicates that DIA has been playing by a different set of rules.

There were also substantial deltas from FY 1992 through FY 1999. Since FY 2000, the deltas have ranged from 12 percent to 25 percent of total expenses (18 percent in FY 2009), so there is a nearly 20-year history of budget overruns in DIA. In fact, if we add together all the deltas since FY 1992 through FY 2009, plus the additional subsidies that the campus has provided DIA for facilities, including the campus assumption of the shortfall between donations and the total construction costs of the Haas Pavilion, the total comes to about $158M. This can be seen as the price tag to date of the Smelser committee's recommendation that DIA should compete across the board in all sports at the top level. Admittedly some very small portion of this total deficit was generated by Recreational Sports during the time when this unit was joined with DIA, but DIA's share of this amount is truly of a different order of magnitude. There has been some talk over the years that a portion of the accumulated subsidies are to be regarded as loans that would be paid back to the campus by DIA in the future. However, we see no realistic chance that any of these monies will be paid back, both because of projections of continued deltas and also because of a long history of loan forgiveness, especially with the appointment of new athletic directors. We think it inconceivable that any future candidate for athletic director would not demand as condition of accepting the position that all past deficits be forgiven. Hence we see these deltas as sunk costs that the campus will never recoup. However our Recommendation 9 does offer a possibility.

In 2004, the Academic Senate, through its Committee on Academic Planning and Resource Allocation (CAPRA), began to investigate the subsidy that the campus had been providing to DIA and highlighted this subsidy in its reports. In 2006, CAPRA proposed a plan to put delta on a 10-year glide path that would reduce it to under $5M after five years (FY 2011) and reduce it to zero after 10 years (FY 2016). Divisional Council endorsed that proposal and the Chancellor subsequently accepted the Senate's recommendation for the first part of the glide path through FY2011, but did not agree to the second portion of the glide path that would have reduced the delta ultimately to zero. Our understanding is that the target figure for the end of the first part of the glide path was subsequently modified twice by the Chancellor, first with an increase to $7.5M, followed by a reduction by 20 percent to $6M for the current fiscal year as a part of permanent general budget reduction. The table above indicates that the DIA delta did indeed start to move down the glide path in FY 2006, followed by further progress in FY 2007 and FY 2008. However in FY 2009, DIA suffered a serious setback with a variance exceeding $6M from their planned budget and the glide path. The department points to an unexpected shortfall in ticket sales of $3M in FY 2009 and an unexpected shortfall in donations of about $1.5M as reasons for this variance, but there were clearly other financial problems as well.

Both of these shortfalls may have resulted, to some substantial degree, from the recent and ongoing financial turmoil and recession. But this variance from budget underlines a key consideration that DIA has not adequately appreciated: some of DIA's income streams are more volatile than the department had anticipated. The remainder of the shortfall was on the expense side, indicating that DIA also did not anticipate the effect of fee increases on the athletic scholarship budget. We were informed that the department became fully aware of these variances from budget too late in the year to make midcourse corrections, and perhaps even too late to make substantial corrections for FY 2010. To borrow an athletic metaphor, one might say that DIA leadership took their eyes off the ball in FY 2009. DIA projects that it is likely to show a delta in FY 2010 of the same general size as the delta in FY 2009, and this projection for FY 2010 is certainly not encouraging to everyone's hopes that DIA will return to the original glide path.

We further observe that the department has focused its efforts on increasing revenue, with very little, if any, attention to controlling costs. Table 1 shows a 145 percent increase in revenues over the last 10 years, indicating a degree of success in generating new revenues. There are prospects for future increases as well, including the upcoming Pac-10 (soon to be the Pac-12) renegotiation of its media contract in 2012, which will provide additional revenues in FY 2013. However, pursuit of new revenues to the exclusion of serious cost control seems likely to lead only to mounting deficits into the future. In *Intercollegiate Athletics and the American University* (Princeton Univ. Press, Princeton. 2000), James Duderstadt, former president of the University of Michigan, confirms this tendency in departments of intercollegiate athletics more generally:

> The competitive nature of intercollegiate athletics leads most athletics departments to focus far more attention on generating revenue than on managing costs. There is a widespread belief in college sports that the team that spends the most money wins the most, and that no expenses are unreasonable if they might enhance the success of the program. Needless to say, this business philosophy would rapidly lead to bankruptcy in the corporate world. It has become increasingly clear that until athletic departments begin to operate with as much of an eye on expenditures as revenues, universities will continue to lose increasing amounts of money in their athletic activities, no matter how lucrative the television or licensing contracts they may negotiate. (pp.128-9)

It seems clear that, 18 years ago, the DIA took the Smelser recommendation as its fundamental operating principle and invested heavily in producing winning teams. But it apparently did not explore seriously the financial implications of this action. Without any real budgetary discipline, DIA seems to have hoped that the revenue streams available would match the expenditures to support the program and, if they didn't, it seems to have assumed that the campus would step in and cover the deficit, which the campus has done contrary to the deficit policy to which all other campus units are held. In addition to a lack of budgetary discipline, the financial state of DIA has been disturbingly opaque. What is needed in addition to budgetary discipline is far greater transparency. This state of affairs has gone on for many years but now must stop.

The task force believes that there needs to be a cultural change in DIA such that excellence in managing the budget and matching resources to expenses is just as high a priority as fielding winning teams and ensuring the academic success and academic integrity of student athletes programs. Costs must be properly contained, and controlled. Firm budgets must be set and followed, with frequent reports to provide advance notice of potential problems.

We are encouraged by some recent changes in financial management in DIA. First, a new associate athletic director and chief financial officer, Laura Hazlett, was hired last May to replace the previous person responsible for budgetary matters, and given a charge to make changes. Vice Chancellor Yeary has installed up-to-date software tools for managing the departmental finances that are more efficient and provide much more timely financial reports. Budgeting for the future should take more fully into account nondiscretionary cost increases such as the impact of increased fees and increased room and board charges on the cost of athletic scholarship and the projected rapid rise in employer contributions to the UC Retirement Plan.

Second, we believe that increased philanthropy is an essential component for the future financial health of DIA. Fund-raising needs to be pursued aggressively by individual teams as well as at the departmental level. The success of the Endowment Seating Program (ESP), which we shall discuss in a subsequent section of this report is also of crucial importance.

In light of these observations and our analysis we offer the following four recommendations concerning the changes that are needed in the internal operation of the department.

Recommendation 1
We recommend that the athletic director and the DIA's Chief Financial Officer (CFO) gain control over and limit expenses. The athletic director and CFO must establish firm budgets, reporting protocols, and accountability for those who administer and are subject to these budgets. In short, a change in the culture of DIA is desperately needed. The task force is encouraged by steps already taken including the appointment of a new CFO and by the introduction of new financial management tools; however, we are concerned that no long range-financial plans have yet been proposed to the task force by DIA. We strongly encourage the campus to hold DIA accountable for meeting its budget and avoiding deficits, and to implement the deficit policies to which all other campus units are held.

Recommendation 2
We recommend that athletic teams be assigned explicit budgets at the athletic director's discretion, and that contracts for coaches mandate financial accountability and fiscal responsibility in clear, unambiguous language. We recommend that contracts for senior DIA management and all coaches contain incentives for meeting assigned budgets and sanctions for overrunning those budgets.

Recommendation 3
We recommend that fund-raising be considered an essential part of the job of coaches, and that coaches formally be assigned fund-raising responsibilities, just as academic deans and department chairs have such responsibilities. The coaches should be provided with support in this area from DIA's professional development

staff. Appropriate incentives should be put in place for those coaches who do exceptionally well in fund-raising, and appropriate sanctions or penalties should be enforced for those who fail to perform adequately in this arena.

Recommendation 4
We recommend that contracts for senior managers, coaches, and assistant coaches be submitted to the executive committee of the UAB for review, comment, and consent prior to being finalized. This review is meant to signal that the UAB is concerned with accountability and transparency in DIA.

We add a few additional comments to these recommendations. First, although DIA was included in the recent Bain Operational Excellence review in general terms, this review only examined certain aspects of its operations. We believe that DIA would significantly benefit from having a consultant such as Bain & Company examine more deeply all aspects of the DIA operation in order to identify additional cost savings.

Second, in the realm of individual team budgets, there are several ways of reducing costs if one has to go beyond reducing frills that do not genuinely contribute to competitive excellence. One way is to maintain the current 29 teams, but reduce their budgets across the board; another way is to tier the teams selectively, reducing funding for those teams in the lower tiers. The latter possibility has been considered in prior years, but not implemented. Both of these scenarios would undermine the competitive excellence either of all teams or of a subset of the teams. A third way to proceed would be to cut some number of teams from varsity intercollegiate competition, reducing them to club sports with no funding from DIA. In general, if there is a need to reduce the overall budget for teams over and above reductions that would not significantly impair the competitiveness of the teams, we would definitely counsel in favor of reducing the number of teams and preserving the excellence of those remaining. We would oppose a strategy of across-the-board reductions or tiering-based reductions since we feel that Berkeley should strive for excellence in all arenas in which we participate.

COMPARISON INSTITUTIONS

The task force found it helpful to examine the status and budgets of intercollegiate athletics at some comparison institutions as one guide in assessing the status and budget of intercollegiate athletics at Berkeley. The first observation is that intercollegiate athletics is nearly universal at American institutions of higher education, at least in some form. The NCAA has separate divisions, including Division I (divided into I-A, I-AA and I-AAA), Division II, and Division III. In Division III, athletic scholarships are prohibited and only general campus, need-based financial aid is permitted. Ticket or media revenue is generally absent, and such intercollegiate athletic programs are supported by philanthropy and direct budgetary allocations from the college or university. Such programs are common at liberal arts colleges, and are idealized by many faculty members as the preferred form of intercollegiate athletics.

Several major research universities, whose names are not normally associated with intercollegiate athletics, operate Division III intercollegiate athletics programs. For instance, the Massachusetts Institute of Technology (MIT) has a Division III program which fields 36 teams including football; the University of Chicago operates a Division III program which fields 18 teams, including football; and the California Institute of Technology (Caltech) operates a Division III program fielding 18 teams, but no football team. Caltech has an undergraduate enrollment of fewer than 1,000, and the sum of the numbers of student athletes on the rosters is in excess of 30 percent of the total enrollment, which means that participation in intercollegiate athletics is substantial at this institution. Even those schools that do not field highly competitive or revenue-generating sport teams do place a certain emphasis on intercollegiate athletics, although they follow a more traditional model in which athletes are recruited from the regular student body.

For purposes of comparison, then, we need to look not just at schools with Division I programs, but also at such institutions that are academically comparable. The first observation is that Berkeley, with 29 varsity intercollegiate teams fields more teams than almost any other public university. The only public university we are aware of with more is Ohio State University with 35. Elite private universities and colleges such as Stanford University and the Ivies generally field 30-plus teams, while public universities tend to offer many fewer intercollegiate sports. For instance, the average in the Pac-10, excluding Berkeley and Stanford, is 20.3 teams, and the Southeastern Conference (SEC) average is 19.5 teams.

Thus Berkeley's 29-team, Division I-A program occupies a position intermediate between those of most public universities and those of elite private universities and colleges. However, given the differences in the financial models of public and private universities, and UC Berkeley’s reputation as a Public Ivy—that is that is, as a strong research university committed to excellence in research, graduate and professional education, and undergraduate education, which attracts many well qualified undergraduate applicants and through a selective admission policy admits and enrolls a talented and well prepared undergraduate student body, the most appropriate comparison group for Berkeley’s intercollegiate athletics program, we believe, would be the other top Public Ivies. These are, following *US News & World Report* rankings, UCLA, UM, UVA, and UNC. UCLA fields 24 teams; UM fields 27; UVA fields 25; and UNC fields 28, thus indicating that they are roughly comparable though somewhat smaller than UC Berkeley in terms of the scope of their programs. Upon further examination, we found that all four of these institutions have set a goal like Berkeley's of competing across the board at the highest level in intercollegiate athletics and, as the table below shows, all do very well in the Directors’ Cup.

Comparisons with private universities do not appear to be particularly helpful given the different options that a private university has for funding intercollegiate athletics using tuition and endowment. However, comparisons with Stanford are inevitable, because of the proximity of the two institutions and their long-standing rivalry, which goes back over a century. As well, a number of households in the Bay Area and elsewhere are "mixed," with one partner a Berkeley graduate and the other a Stanford graduate, a situation that leads to comparisons, especially when it comes to family philanthropy. Stanford has an endowment devoted to intercollegiate athletics in excess of $300M, is committed to excellence in athletics, and has a virtual lock on the Directors' Cup, having won it every year since 1994.

The table below displays the final standings in the Directors' Cup over the past seven years for five Public Ivies, plus Stanford. Berkeley is listed twice in the table, the first listing reflecting our published standing and the second listing including points that would have been awarded if men's crew were to be included among the eligible sports. The exclusion of men's crew from these standings is an anomaly that artificially undervalues the legitimate achievements of the Berkeley intercollegiate athletics program. Although Stanford supports a men's crew team, as do the University of Washington and Oregon State University in the Pac-10, none of the other Public Ivies listed supports a men's crew team. Women's crew is, however, included in the Director's Cup standings. Rugby is also excluded from the Director's Cup standings but we do not include a correction for Berkeley's achievements in rugby as the case for inclusion of rugby is nowhere near as strong as is the case for inclusion of men's crew because of the relatively small number of varsity intercollegiate rugby teams in the U.S. The column of averages is computed by dropping the lowest ranking among the seven for each university and then averaging the remaining six. Given the volatility of such rankings, this kind of averaging seems a reasonable way to arrive at an overall assessment.

Table 2
Director's Cup Results for Comparison Institutions

Institution	03-04	04-05	05-06	06-07	07-08	08-09	09-10	Average
Stanford University	1	1	1	1	1	1	1	1.0
UM	2	4	24	4	3	5	25	7.0
UCLA	3	3	2	2	2	16	4	2.7
UVA	30	13	26	13	16	8	3	13.2
UNC	7	9	4	3	4	2	7	4.5
UCB	9	15	7	9	7	7	9	8.0
UCB+MC	7	11	4	5	2	4	5	4.5

The results indicate that the five Public Ivies have had comparable outcomes in athletic competition, especially if we focus on the performance of UVA during the last two years. However, the deltas for these schools show significantly divergent results, as the table below shows.

Table 3
Income, Expenses, and Deltas for Comparison Public Institutions (in 000s) FY2009

Institution	Earned Income	Total Expenses	Operating Expenses	Retained Surplus	Delta	Operating Expenses per Student Athlete
UM	95,193	95,193	84,542	10,651	----	107.6
UCLA	63,469	66,178	66,178	----	2,709	94.5
UVA	55,267	67,141	63,697	3,444	11,874	97.4
UNC	68,200	74,644	74,462	182	6,444	94.6
UCB	59,072	72,739	72,739	---	13,667	83.4

The operating expenses for the five institutions are not grossly dissimilar, ranging from UM on the high end to UVA on the low end. It is interesting to note, however, that Berkeley spends the least in operating expenses per student athlete of any of its four comparison institutions. Another interesting comparison statistic, which sheds a slightly different light on expenses, is the amount of money spent in team budgets per sport on Olympic sports, which we define as all sports other than football and men's and women's basketball. In FY2009, UM spent $977K per team, UCLA spent $850K per team, UVA spent $773K per team, UNC spent $589K per team, and UCB spent $742K per team. In light of these comparisons, UCB seems to be generally in line with these comparison institutions in expenditures on Olympic sports.

In each of these institutions except for UC, intercollegiate athletics is classed as an auxiliary enterprise that is supposed to be self-supporting, while intercollegiate athletics at UCB and UCLA have a hybrid status with football and men’s basketball programs classed as an auxiliary and the other sports classed as student activities. Appendix E contains a memorandum from UCOP providing details on this hybrid model. The Berkeley campus budget office reports that since 2001, it has treated DIA in a manner consistent with this hybrid model. This memo from UCOP comes rather after the fact and late in the game. It suggests to us that UCOP had in the past paid insufficient attention to revising out-of-date policies regarding intercollegiate athletics and more generally had paid insufficient attention to providing consistent and coherent policy guidance to the campuses on these matters.

Data on intercollegiate athletics at UCLA shows a delta of $2.7M, which is funded by registration fees. The pattern of deltas for UCLA has been highly consistent over a number of years, indicating that their intercollegiate athletics program has been able to control expenses and match revenue with a fixed delta, bringing their operation in on budget. UNC has a delta of about $6.5M, which is funded from a fee imposed on students to support intercollegiate athletics this is not a fee that the students voted on themselves. UNC showed a small surplus in FY2009, which was retained by intercollegiate athletics. UVA runs a delta of nearly $12M, which, as with UNC, is funded by a fee imposed by the campus on undergraduate students to support intercollegiate athletics. As a benefit, students at UVA receive free admission to all intercollegiate athletics events (including 12,000 seats in the football stadium) As one can see, UVA ran a substantial surplus in FY2009, which the department retained as a reserve fund for use in offsetting future costs or repaying past deficits. The UVA athletic department pays the full costs of their equivalent of our Athletic Study Center. The scenario at UM is entirely different. Their intercollegiate athletics operations show a surplus, which over the last four years has averaged more than $13M per year. This surplus is devoted to improvements to their physical facilities. We have been assured that there are no subsidies to intercollegiate athletics at UM, with the sole exception that the provost's office pays the salary and benefits of the director of a unit that is their equivalent of our Athletic Study Center. Their department of intercollegiate athletics pays all the other costs of this unit, which reports to their provost's office, similarly to ours.[2] These numbers compare to the delta of $13.7M for 2008-09 for UCB.

The athletic scholarship budgets for UCLA and UCB are quite similar: higher than at UNC and UVA, but significantly less than at UM, where financial aid expenditures are 50 percent higher than at UCB and where UM has 15 percent fewer student athletes. These differences may well reflect differences in tuition and differences in the percentage of student athletes who are not state residents. However, it seems clear that UM provides a richer financial aid package than any of the other four institutions in this comparison group. Each of these institutions assesses a charge on their DIA for administrative services akin to our administrative full costing charge and in each case it is about $2M. For instance, for 2009-10, DIA paid $2,334,747 in administrative full costing.

Revenue patterns in the five schools show many similarities, except that UM generated far more revenue. For instance, UC Berkeley generated about $11M in ticket sales for football, while UM generated $31M. UM has a stadium seating 105,000 that normally sells out for every home game. Also UM receives roughly $20M in media and conference revenues while UCB receives around $5M for comparable considerations. UCB is clearly at an inherent competitive disadvantage compared to UM although a renegotiated media contract for the now the soon to be Pac-12 should provide some additional income in FY 2013. Nevertheless, the bottom line is that UC Berkeley's delta is high by comparison with the Public Ivies.

We end with a brief comment about comparisons with other Pac-10 public universities, where there are no differences in league media revenues as the Pac-10 universities receive the same media revenues from the league. UCLA, the University of Washington, and the University of Oregon all have deltas under $4M, while the other four Pac-10 public universities other than Berkeley have deltas ranging from $8M to $12M. Data from Stanford and the University of Southern California (USC) are not available. Hence the delta at UCB is also high by Pac-10 comparisons.

[2]Note that UM devotes twice the amount of money per student to this academic support unit as compared to UC Berkeley.

THE SIZE OF DELTA AND ITS TRAJECTORY

We now turn to one of the main issues of the report—namely, what level of total campus support (i.e., delta) do we recommend to the Chancellor as reasonable or tolerable in the coming years, and specifically how large should this number be in the short, intermediate, and long-term periods. We interpret the resolution passed at the Division meeting last November to say that delta should to go to zero immediately. The CAPRA/DIVCO recommendation in 2006 was a glide path where delta would be reduced to under $5M by FY2011 and subsequently be further reduced to zero by FY2017. This glide path was followed through FY2008, but delta rose to $13.7M in FY2009, and while we have not yet been provided numbers for FY2010, we assume that delta will be of the same general size.

In addressing the issue of the size of delta and its trajectory, the information from other institutions laid out in the previous section will be useful, but in addition we wish to explore what possible value and benefits intercollegiate athletics may provide to the campus, as well as any possible detriments. The results of that discussion will be a factor in our judgments on the appropriate size of delta into the future.

The task force recognizes that intercollegiate athletics provides value to the campus in a number of different ways. First and most obviously, it provides opportunities for student athletes to develop their athletic abilities, engage in athletic competition at a high level, and develop teamwork and time management skills that will benefit them throughout their careers. However, these benefits from the intercollegiate athletics program accrue to a very small group of students, only 3 to 4 percent of the undergraduate student body. The intramural and club sports programs provide similar opportunities and benefits to a much larger group of students; these programs do receive subsidies from the campus although of a much smaller magnitude per student participant.

Intercollegiate athletics, however, provides other benefits of broader significance for student life in general. Many students join interest groups based on their major (such as a math club), a career interest (such as accounting), or some activity of special interest (such as working on the *Daily Cal*, participating in student government, the Cal Band, the student orchestra, jazz groups, or cultural heritage groups). The experiences within these small groups deeply enrich college life for the participants, and similarly a successful intercollegiate athletic program can provide a way to engage the interest and spirit of students who attend intercollegiate athletics events. These athletic events provide experiences that transcend these small groups, and help to build community and a sense of unity for a broader part of the student body than do smaller organized groups. A successful intercollegiate athletics program can deepen school spirit and promote pride and loyalty.

A successful intercollegiate athletics program likely has some relatively minor effects on undergraduate admissions. Our director of undergraduate admissions observed, in discussion with the task force, that prospective students value and are attracted to the wide range of excellence that Berkeley presents—from our outstanding and rigorous academic programs, to the rich intellectual and cultural life on campus, to a broad range of successful intercollegiate athletic teams. In addition, when a star athlete who is admired and well liked at a high school is admitted to and attends Berkeley, this decision sometimes serves a magnet for other students to consider Berkeley, particularly when the student athlete's high school does not have a strong college-going culture.

A successful intercollegiate athletic program is also a significant element in campus efforts to communicate with our alumni. There is certainly a high level of interest among some of our alumni in intercollegiate athletic programs, not only in football and basketball where the interest is most intense, but also in the wide spectrum of Olympic sports that the campus also supports. Intercollegiate athletics is for many alumni the primary vehicle through which they maintain a lasting connection to the campus and through which the campus promotes loyalty. Attendance at athletic events on campus brings alumni onto campus more frequently than virtually any other reason. Having a loyal and enthusiastic alumni group is clearly of value to the campus above and beyond any value it may have for philanthropy.

Intercollegiate athletics plays a significant role in relations with the general public by helping to "brand" the campus and to make the campus name stick in the public mind, especially as intercollegiate athletics allows the campus to reach a segment of the population that is not otherwise reached. UC Berkeley intercollegiate athletic events appeared on television 70 times during the previous year, some of them on national television. This alone is valuable publicity for the campus, but in addition to such televised competitions, each college or university is given a free 60-second public affairs announcement in which they can present a profile of their institution. University Relations estimates that if the campus were to purchase television time to air these announcements, the cost would be many millions of dollars. Of course, in the absence of such free television time, the campus would not opt to purchase an equivalent amount of paid advertising time, but nevertheless there is something here of substantial value. The director of undergraduate admissions specifically noted the value of such free advertising to the success of his office. While most of the publicity concerning intercollegiate athletics concerns the revenue sports, we should not forget the very powerful and positive exposure our Olympic sports programs receive every four years in the Olympic Games, where our student athletes routinely win more medals than any number of countries, a fact prominently noted in press coverage of the Games.

Finally, we come to the issue of what effect our successful intercollegiate athletics program has on fund-raising, particularly on fund-raising for the academic enterprise of the institution. In considering this issue, we do not look only at the differences in fund-raising between winning and losing seasons, as so much of the literature on the subject does, but rather we examine the difference between a current well-funded and quite successful intercollegiate athletics program and a hypothetical one that would operate at a very different level with, say, substantially lower funding and with substantially fewer sports teams fielded, teams which also do substantially less well in competition. The question here is: what effect would such a downgraded program have on fund-raising for academic purposes? The analysis has to take the form of a thought experiment—or *Gedankenexperiment*, to borrow a term from theoretical physics—because we are not in a position do the actual experiment.

The task force met for several hours with Vice Chancellor Biddy and his staff to try to think through an approach to this problem based on such data and judgments as are currently available. We find convincing a narrative that would lead us to Vice Chancellor Biddy's conclusion that, with the hypothetical downgraded intercollegiate athletic program described above instead of our current one, academic fund-raising would be reduced by up to 10 percent. This event would translate into a maximum of $25M per year decrease, over a period of a number of years, reducing support for core campus functions including endowed chairs, graduate student fellowship funds, undergraduate scholarship funds, various academic programs, and funds for construction of academic buildings. We feel that such a downgrading of the intercollegiate athletic program, with the subsequent negative effect on academic fund-raising, would be the possible result of a severe and sudden cut in the subsidy that the campus provides to DIA. Vice Chancellor Biddy's conclusion is based on his analysis of the probable reaction of a number of major donors to such a downgraded intercollegiate athletics program and then extrapolated to larger group of donors. The justification for starting with an analysis of a group of major donors is the 95-5 rule where 95 percent of the donations come from 5 percent of the donors.

We have also heard from several of our colleagues who have been personally involved in raising funds for their departments or programs that intercollegiate athletics is a portal for donors. For a certain number of donors, their attraction to campus philanthropy was inspired by intercollegiate athletics, and their first gift to the campus was directed to intercollegiate athletics, but a certain portion of these donors subsequently went on to develop philanthropic interests in academic areas, perhaps aided by strategic campus donor stewardship. Some data supporting this assertion is contained in the 2006-09 report of the UAB. But one might ask if those donors who were first athletic donors, and who then began to contribute to the academic programs of the campus, would eventually have done so anyway absent a successful intercollegiate athletics program. That question is difficult to answer and no easy thought experiment can resolve it, but it would seem that even if they did develop philanthropic interests in other campus areas, it would take longer for them to do so. On the other hand we have heard from other faculty that intercollegiate athletics has played no role in their fundraising, and we have been made aware that some donors find the expenditures on intercollegiate athletics a reason not to donate to unrestricted funds. It is abundantly clear that many excellent research programs reported in the media, and positive memories of excellent classroom experiences form the attraction for donations.

The judgment of a large majority of the task force, based on evidence from Vice Chancellor Biddy and faculty colleagues, is that the intercollegiate athletics program in its current successful format does have a positive effect on academic fund-raising, and that substantial downgrading of it would result in a significant decrease in donations to the campus in support of the academic program.

There has been a debate in the scholarly literature over the last 30 years on the issue of whether athletic success in a university's intercollegiate athletics program has an effect on that university's fund-raising for its academic enterprise. This debate seems to have originated with a 1979 paper by Sigelman and Carter, which analyzes data from a large number of universities and concludes that there is no effect. In 1981, Brooker and Klastorin reanalyzed the data, segmenting the group of institutions, finding a positive effect in many cases, and a negative one in other cases. We have located a total of 21 scholarly publications addressing this issue, all of which use empirical data and seek to establish a connection or not, usually relying on a regression analysis. These are listed in Appendix F. Of these 21 publications, nine claim a generally positive connection between intercollegiate athletic success and academic fund-raising, while nine find no effect or a negative relationship. We are unable to classify three as they seem to lack of relevance to Division I athletic programs, which is our focus. Classification can be ambiguous in some cases depending on what type(s) of institutions are considered. For instance, several papers find no correlation for universities with Division IA programs or for Ivy League schools, but do find correlations for liberal arts colleges, which normally have Division II or Division III programs. We classify these as negative as our focus is on Division I or Division IA programs.

In most of the publications deemed most relevant to Berkeley's experience the relationship between intercollegiate athletics success is found to be a relatively weak one, if it is found to exist at all, with a number of results not meeting standard tests of statistical significance. In almost all of these publications athletic success is based on success in football, and in some cases men's basketball. Several different measures of academic fund-raising are used in these studies. A common one is measuring contributions to the institutions' annual fund, but this type of philanthropy is in many cases only a small fraction of what the institution receives in philanthropy. In any case, it seems clear that one must differentiate by institution type and by the NCAA Division in which an institution competes. While UC Berkeley and institutions like it appear as a part of multi-institutional studies, we are not aware of any study which focuses on Berkeley or institutions like Berkeley (i.e., the Public Ivies), and hence the studies are of limited relevance to us. Finally, given the difficulty in obtaining reliable data, the divergence of results is not surprising.

The most commonly cited publications that find no general effect are by Shulman and Bowen (2001) and Turner, Meserve, and Bowen (2001). Shulman and Bowen state:

> The data flatly contradict one of the strongest myths about college athletics—namely, that winning teams, and especially winning football teams, have a large positive impact on giving rates. Winning football teams do not inspire increased giving on the part of alumni/ae at Division 1A private universities or Ivy League schools. Surprisingly, it is only at the coed liberal arts colleges, where teams generally receive less recognition, that winning is associated with increased alumni/ae giving, a finding that can be attributed mainly to the exceptionally large number of former athletes found among the alumni/ae at these schools. (p. 266)

Turner, Meserve, and Bowen likewise state in their abstract: "While there is a modest positive effect at Division III liberal arts colleges, our results do not support the notion that winning and giving go hand-in-hand at the selective private universities that play big-time football."

It is noteworthy that neither of these two results applies to public research universities such as UC Berkeley. While UC Berkeley might be sufficiently similar to elite private universities in some respects so that the results may extend, that is by no means certain.

These findings for private universities may well be reflected in the following pronouncement, related by Derek Bok, former president of Harvard University, in his *Universities in the Marketplace: The Commercialization of Higher Education*, Princeton University Press, Princeton (2003): "…as Richard Conklin, vice president of Notre Dame, has bluntly observed: 'Repeat after me: there is no empirical evidence demonstrating a correlation between athletic department achievements and [alumni] fund raising success'" (p. 50)

Another study of interest is Baade and Sundberg (1996) in which the authors find that while winning records in football and men's basketball do not correlate to significantly higher gift totals, Bowl game appearances do result in significantly higher gift totals, and appearances in the NCAA basketball tournament do result in higher gifts for public universities. We place this study among the 10 positive ones. In Sack and Watkins (1985), the authors also find that year-to-year changes in won/lost records do not correlate with changes in giving. However, the authors cite (p. 300) a 1978 study of 529 Notre Dame alumni finding that 50 percent of them agreed with the statement, "I would be less likely to give financial support to Notre Dame if football were sharply deemphasized." And 65 percent of those surveyed who had incomes over $50,000 (in 1978 dollars) agreed with this statement. The authors go on to editorialize as follows: "A losing season may not affect alumni giving, but an attempt to eliminate college sport at a school with a strong athletic tradition might well lead to financial disaster." We place this study in the negative column in light of the statistical findings, even though some other aspects of the paper do support a connection between giving and the general level of campus support for the intercollegiate athletics program.

One result that seems interesting and different from the others as it concerns a broad spectrum of sports beyond football and basketball, is presented by Meer and Rosen (2009). They found that male alumni of an unnamed private university who were college athletes increased their donations to the institution for general purposes by 7 percent when their former team had won the conference championship. Furthermore, those male former athletes whose team had won the conference championship while they were on the team contributed 8 percent more to the institution than other former athletes. Yet no effects of this sort were found for female alumni. Again, the data are from a private university, where one presumes a much larger fraction of the undergraduates participate in intercollegiate athletics than at a public university.

In a widely cited 2004 review paper commissioned by the Knight Commission, "Challenging the Myth: A Review of the Links Among College Athletic Success, Student Quality, and Donations" (http://www.knightfoundation.org/dotAsset/131763.pdf), Cornell Professor of Economics Robert H. Frank opines on the totality of published empirical research as follows:

> As many of the authors of the studies discussed above would be quick to concede, the limitations of existing data and methods of statistical inference make it exceedingly difficult to reach definitive general conclusions about the strength, or indeed even the existence of the causal relationships in question. Perhaps the only firm conclusion that can be drawn from a review of the empirical literature on the indirect effects of athletic success is that each of the competing claims regarding these relationships is likely to be true under at least some circumstances. (p. 25)

He then adds:

> That there are many wealthy donors who care deeply about the athletic success of their alma mater cannot be questioned. Nor is there any doubt that the good will generated by a successful athletic program prompts many of these people to donate more generously. Yet all major programs go through cycles of relative success and failure. And if success stimulates alumni giving, then failure must inhibit it. The empirical literature seems to say that if the overall net effect of athletic success on alumni giving is positive, it is likely to be small. (p. 25)

A second and very recent review paper by Malcolm Getz and John Siegfried –"What Does Intercollegiate Athletics Do To or For Colleges and Universities" --Working Paper. Vanderbilt University, Department of Economics. May 2010 (available at http://www.vanderbilt.edu/econ/wparchive/workpaper/vu10-w05.pdf) surveys much of the same literature plus additional contributions since 2004. The authors' conclusion is a bit different than that of Frank's:

> A lot of anecdotes and marketing hype are devoted to the prospect that winning university sports teams stimulate private donation to successful schools. Systematic empirical evidence generally supports the anecdotes, although the effects appear to be small, and result primarily from the appearance of football teams in post-season bowl games. (p. 25)

Both of the external sports economist reviewers consulted by the task force, Roger Noll and Robert Baade, agreed with the above summary of the empirical literature on the topic of the connection of athletic success and academic fund-raising. Our conclusion is that the empirical literature is sufficiently mixed and of limited relevance to UC Berkeley that, in reaching conclusions on these matters, we should place far more weight on our own campus experiences, and the judgment of our development professionals.

The benefits of intercollegiate athletics as enumerated—involving campus life, relations with alumni and the public, and on fund-raising for the academic enterprise—are generally qualitative and cannot be easily quantified or monetized, except for some estimates of the dollar impacts on academic fund-raising.

However, before moving on, due diligence requires us to reflect here upon the possibility that there may be qualitative detriments to campus and community life associated with intercollegiate athletics. The increasingly commercial aspects of the revenue-generating sports may clash with the academic campus culture, and in addition these commercial aspects, together with a desire to win at all costs, can lead to abuses of various sorts, including unethical recruiting strategies and questionable practices once the recruited student-athletes arrive on campus. Such events can lead to NCAA sanctions and very damaging publicity for the institution. Our sister Pac-10 institution USC has recently experienced such problems, and UC Berkeley has experienced NCAA sanctions in the past, albeit for much less serious rule violations. While NCAA rules limit the amount of time that a student athlete can be required to spend practicing and in competition, subtle pressures may encourage students to spend additional time on their sports activities. The scheduling of practices may also limit the range of courses the student athlete can take or the majors that s/he can pursue. Student athletes frequently have to be away from campus to compete in athletic events, and as a result often miss classes, other instructional activities, and on occasion scheduled examinations—a situation compromising the quality of the education that the student athlete receives. Finally intercollegiate athletics may have negative psychological or social effects on student athletes. In *Unpaid Professionals*, Princeton Univ. Press, Princeton (1999), Andrew Zimbalist observes that:

> "[i]n 1987 the NCAA commissioned a $1.75 Million study on the psychological and social impact of college athletic participation. The results of the study were not sanguine, concluding that college athletes have more psychological, physical, and alcohol and drug related problems than other students involved in time-demanding extracurricular activities. It also found that athletes are less likely to accept leadership roles or assume responsibility for others" (p. 51)

Just as the possible benefits to the campus of intercollegiate athletics outlined above could serve as possible rationales for the campus to provide a subsidy of some dollar amount to intercollegiate athletics, the possible detriments might be used as a rationale not to provide a subsidy. There are, however, two other possible rationales for a subsidy. The first one involves gender equity. The campus's commitment to gender equity led it to increase opportunities for women in intercollegiate athletics by adding women's teams over the last two or three decades. Of course, the requirements of Title IX mandated this action since the campus chose to retain all of the existing men's teams. Indeed, the need to add women's sports was the rationale for providing the $2M registration fee subsidy to intercollegiate athletics beginning in 1991. However, we disagree with this argument as a rationale for a continued subsidy. We do not find it appropriate to distinguish between men's non-revenue generating sports and women's non-revenue generating sports. This argument belittles the women's teams as charity, or a necessary evil if we want to pursue men's sports. We find this argument counter to the inclusive atmosphere fostered on the UC Berkeley campus.

The second additional possible rationale revolves around the earlier observation that intercollegiate athletics in some form is nearly universal in American higher education. Liberal arts colleges and some major research universities support Division III intercollegiate athletics programs as an integral part of their program of student activities. These programs are supported by allocations from the campus funds just as the library is supported from such funds. Revenues from such Division III programs are virtually nonexistent, and no athletic scholarships are allowed. One might argue that if support of such a Division III program is an appropriate use of campus funds, then it might reasonable to provide subsidy of the same magnitude to a Division I-A program. We do not know what amount of money it would take to support a Division III program fielding 29 teams including football, but it is surely on the order of several million dollars. For instance MIT subsidizes its Division III intercollegiate athletics program of 36 teams, including football, by an amount of approximately $6M, and the University of Chicago subsidizes its Division III intercollegiate athletics program of 18 teams, including football, by approximately $3.5M.

The task force considered these various rationales for providing a subsidy to intercollegiate athletics, as well as various ways to monetize some of the softer values that intercollegiate athletic provides to the campus, and the question of how to convert to a dollar figure the benefits intercollegiate athletics provides to fund-raising in support of the academic enterprise. Members of the task force assigned different values to individual items, but in the end, each of us looked at the entire range of benefits and rationales, and came to conclusions about the size of a campus subsidy that seemed to reasonable or tolerable, based on the entire package of rationales. Another way of looking at the issue was for each task force member to determine what could be viewed as a prudent investment of campus funds in intercollegiate athletics. Our conclusions are embedded in the following four recommendations.

Recommendation 5
We recommend that the long-term goal of the campus should be to reduce to zero the yearly funding it provides to DIA, known as the delta.

In short, we all agreed to the long-term goal that intercollegiate athletics should in the long term be self-supporting. We do not specify a year by which this should happen, but we believe that this goal is possible to achieve first of all by implementing serious cost controls and by ramping up fund-raising, and in particular creating an endowment to support DIA, comparable to Stanford's athletics endowment. See also recommendation 9 below.

Recommendation 6
We recommend that, in the short term, the delta be reduced to $5M or less. The majority of the Task Force (5 out of 8 members) finds $5M to be a tolerable temporary level of subsidy from the campus to DIA. This majority recommends that the campus replace the old glide path with a new "step-down" trajectory for the

delta, progressively reducing it by explicitly designated quantities (or “stair steps,” if you will) to $5M or less by FY 2014.

A minority of the task force (2 out of 8 members) recommends that the subsidy be limited to no more than $3M, and that a step-down should be instituted that arrives at that lower limit over the same period of time, i.e., by FY 2014.

One member of the task force recommends that campus support should much more immediately be brought to zero. The rationale for this is two-fold. First, no other campus unit or department was given a step-down strategy to the severe budget cutbacks of July 2009. Second, in the view of this member, DIA has not provided a financial plan or business strategy that demonstrates a financial need for a subsidy.

We suspect that the variety of opinion on the task force reflects the variety of opinion among our faculty colleagues, as expressed by the material in Appendices A, B, and C.

Recommendation 7
We recommend that the campus and DIA use all available means to achieve this step-down. The financial strategies should include many or all of the following: significant staff reductions in DIA, streamlining of back-office operations, increased media revenues, increased revenues from ticket surcharges, increased philanthropy, and, if necessary, reduction in the number of teams. We recommend, as well, that the Operational Excellence project examine in depth the entire operation of DIA.

Recommendation 8.
We recommend that any decisions regarding changes in funding levels for teams or changes in team status program take into account the impact on campus fund-raising more generally. In two meetings with the task force, Vice Chancellor Biddy has emphasized his view that a major reduction in the number of teams or the degree of athletic excellence and success expected of them could put at risk up to $25M annually in donations to the academic enterprise, which would amount to almost 10 percent of the total of such contributions. He suggested that less substantial reductions in intercollegiate athletics could result in smaller but still meaningful decreases in donations to the campus as a whole. As well, several faculty colleagues have mentioned to us the importance and significance of athletics in their own fund-raising activities, for example as venue for conversations with potential donors. Given the mixed nature of the scholarly research on the connection between athletic success and fund-raising for the academic enterprise, as well its marginal relevance to UC Berkeley (in the opinion of many, but not all of the task force members), we recommend that the campus commission a study of the relationship between athletics and academic fund-raising that is specific to the UC Berkeley environment and extant patterns of relations between alumni and campus. Such a study might possibly be a part of a more comprehensive study of donor attitudes and motivations for giving.

To focus on one point, a majority of the task force has come to the conclusion, based on the considerations above, that reducing delta to zero immediately or as soon as is legally possible, would result in a significant negative impact extending over a number of years on campus fund-raising for the academic enterprise of the campus and in the disaffection of a number of major alumni supporters of the campus. This majority believes that the step-down strategy for delta to $5M by FY 2014 with a further decrease over the long-term to zero is the preferred pathway. As already noted, this view is not unanimous.

CALIFORNIA MEMORIAL STADIUM (CMS) AND THE STUDENT ATHLETE HIGH PERFORMANCE CENTER (SAHPC)

In 2004, the campus began a planning process for the renovation of the California Memorial Stadium (CMS), an aging and seismically poor structure. It was determined that the first phase would be the construction of what was called the Student Athlete High Performance Center (SAHPC), which was to be a separate building located immediately to the west of CMS and largely underground. It would house expanded facilities for football as well as 12 other sports, including locker rooms, meeting rooms, physical conditioning, and sports medicine facilities. These new facilities would redress Berkeley's current ranking at the bottom of the Pac-10 with respect to space per student athlete in physical conditioning and sports medicine facilities. The SAHPC would also address concerns about the shocking lack of adequate or even any space at all for several women's teams that had arisen in Title IX reviews. Subsequent phases of the CMS project would involve seismic retrofit and upgrading of the stadium itself. Construction of SAHPC as the first phase would allow DIA employees and student athletes, whose work spaces were located under the stadium, to be relocated to SAHPC during the CMS renovation.

Fund-raising for SAHPC commenced and was subsequently amended to allow a modified strategy for future contributions. The campus or UC would issue bonded indebtedness to finance the SAHPC with DIA revenues pledged to pay off the bonds, while additional donations to DIA would flow into a FFE (Funds Functioning as Endowment) account where the investment returns from the FFE, and if necessary a portion of the principal, would supplement the DIA operating budget in the future. The Regents ordered the campus to either abandon CMS or proceed immediately with the seismic retrofit of CMS. The campus decided not to abandon the CMS, turning down alternative strategies of holding football games in an existing stadium elsewhere in the Bay Area or constructing a new UC Berkeley stadium. Planning for the seismic retrofit of CMS as well as upgrading of the facilities began immediately, as did fund-raising for the project.

The funding strategy for the CMS retrofit and upgrade is the same as that for SAHPC. UC would issue bonds with DIA revenues pledged to repay the bonds. Thus, the campus has incurred or will incur bonded indebtedness of nearly $500M ($321M for CMS and $126M for SAHPC) and has pledged or will pledge intercollegiate athletics revenue streams to service the bonds. DIA is undertaking to raise additional funds, first through donations directed toward the SAHPC, but then in addition for CMS through what is called the Endowment Seating Program (ESP) in which a small number of season ticket holders (about 3,000) out of a total seating capacity of over 60,000 will be guaranteed access for 40-50 years to the best seats in the house on the west side of the stadium, which will come with better amenities including cushioned seat backs and more legroom (instead of cramped uncomfortable wooden benches from circa 1920) and access to special club facilities, all in exchange for a substantial donation ranging from $40K to $225K upfront (and averaging $100K), or with suitable payments made over five years or 30 years (e.g. the annual payment over 30 years in lieu of $100K upfront is $6,800).

The University has already obtained bonding at a tax-exempt rate of 3.97 percent for SAHPC and the university anticipates issuing a bond later this year at a tax-exempt rate of 4.5 percent, which will include funding for CMS. The bonds provide for interest-only payments for 20 years, followed by amortization of the principal over 12 years for SAHPC and 10 years for CMS. Thus, beginning in 2012 for SAHPC and in 2013 for CMS, debt service on these bonds will become an additional expense item in the DIA budget. During the period of interest-only payments, the total debt service is anticipated to be $19.4M, and will rise in the amortization phase, beginning in FY 2033, to $54.2M for both bonds together.

SAHPC donations, plus ESP income, plus expected additional donations connected with naming opportunities in the CMS, together with funds generated by a special ticket surcharge will be pooled in an FFE in which investment returns and portions of the principal as necessary will be used to supplement the DIA budget. The hope is that with solid investment returns at a substantially higher rate than 4 to 4.5 percent, this strategy will in 2043 leave DIA with a substantial endowment.

There are, of course, multiple risks in such a funding strategy. First of all, its success depends on fund-raising reaching stated goals. The SAHPC fund-raising did fall short of expectations. The ESP is currently underway, and while we are informed that it is meeting its benchmarks so far, we will not know until 2013 whether the goals have been met. Additional fund-raising connected with naming opportunities in CMS is pending, so the outcome is unknown at this time. Our outside reviewers were especially concerned about the ability of intercollegiate athletics to raise this amount of money from what are, in effect, personal seat licenses. They pointed out that while the number of seats that are being sold is about average for college stadium projects, the per-seat charge is well above what any other university has charged in a successfully completed program. They raised the question of what marketing research had been done prior to embarking on this program. Upon inquiry, we have been reassured that marketing research had been done prior to the initiation of the ESP, and that outside consultants were engaged, although the report has not been shared with the task force.

We note that, in the first year of the three-year ESP sales program, about 60 percent of the seats have been pledged, which brought in only about 50 percent of the total anticipated revenues since the most expensive seats have had a lower rate of sales so far. This sales record to date is somewhat encouraging, especially in light of these sales having been transacted during the current recession, but we all must await the final results two years from now. However more than 80 percent of the pledges so far have been transacted under the 30-year payment plan, a result that falls short of expectations. DIA hopes that this pattern will shift toward more payments being made upfront as the economic climate improves. In any case, there is concern that if this pattern continues, then perhaps 10 years down the line, people will begin to drop their participation in the program and seats will go begging.

The other major risk resides in the projected rate of return on the FFE investments, especially given the current financial crisis and the precipitous declines in investment portfolios. However what is at issue here is the rate of return on investments over a 30-year period rather than returns over a year or two or even five years. The long-term returns are much less volatile. A related factor is inflation over the next 30 years. Inflation of course always benefits a debtor.

We have performed a probabilistic risk analysis using various financial assumptions about the degree of fund-raising success in the ESP and the rate of return on investments over the next 30-year period. Appendix G contains some details of the calculation. Under most circumstances, our analysis predicts that the strategy will succeed and would leave DIA with a substantial endowment to support operations when the bonds are paid off in 2042-43. Averaging the predicted value of this endowment over the range of assumed rate of return on investment and fund-raising success yields an amount in the hundreds of millions of (2043) dollars. Yet there is a chance, which we calculate at less than 10 percent, that there will be deficit at the end of the process in 2043, a deficit that DIA or ultimately the campus will have to clear. The results of our financial risk analysis are generally consistent with the results of the financial risk analyses that the campus has performed. Careful monitoring by the campus over the next 30 years may help to prevent financial shortfalls. We note as well that once these facilities come on line, there will be added expenses in the DIA budget needed for operating and maintaining them.

Another risk arises from seismic activity on the Hayward Fault, which runs directly through CMS. A significant earthquake could render the retrofitted stadium unusable for a period of time, with DIA or the campus facing repair costs. According to United State Geological Survey (USGS) data, there is a 30 percent chance of a seismic event somewhere along the Hayward Fault in the next 30 years. Also using USGS data, campus staff and consultants in Facilities Services have estimated that during a 30-year period there is about a 6 percent chance of a seismic event occurring on the Hayward Fault and centered at or near the campus that could cause damage to a retrofitted CMS. The detailed structure of the Hayward Fault, and the implication of that structure for the projected nature of future earthquakes on the fault, their expected frequency, and the expected locations of their epicenters are active areas of geological research. Any new findings of this research should inform calculations of the risk of damage to CMS and to other campus structures. If damage does occur to the renovated CMS, it is estimated by Facilities Services that the CMS could be closed for four to eight months. Facilities Services judges that such a closure is possible but not likely. Depending on the time of year of such an event, CMS might be unusable for less than a full season, but we will assume one season for these purposes.

A plausible scenario for dealing with such an event would be to play that one football season in AT&T Park at a cost in current dollars of approximately $5M. It is also plausible to assume that ESP revenue would continue unchanged. This is clear in the case of those ESP members who have prepaid the total endowment. But since

ESP members would receive premium seating at AT&T Park, it is plausible to assume that those ESP members who pay yearly would continue to do so. However, opinions may differ on whether these assumptions are overly optimistic. The financial risk for operating revenue would then be $5M with a probability of 0.06 and zero dollars with a probability of 0.94; if one takes a statistical average or expectation, this comes to $300K. Even if the repairs took longer than expected and CMS were unusable for two seasons, the impact on this basis is only $600K, still a small amount of money in the scale of things.

What remains, of course, are the capital costs of doing the needed repairs to CMS and, for that matter, the cost of seismic repairs to SAHPC, Haas Pavilion, Edwards Stadium, and other DIA facilities. The magnitude of such costs is unknown, although the estimate of a closure time of four to eight months would place a relatively modest limit on possible repair costs to the retrofitted stadium. It is unknown to what extent these costs would become mixed with the cost of repairs to other campus buildings and the extent to which the federal government, through FEMA or other agencies, or the State would provide help to the University. One thing is sure, based on federal and state responses to previous disasters: the whole process would be intensely political, with uncertain outcomes. Moreover, CMS is not likely to be at the top of a list of priorities if there is serious damage to core academic facilities on campus. We recommend that, in light of the indebtedness that has been incurred for CMS, the campus consider purchasing insurance that would provide some assured assistance with the costs (including relocation costs for another venue while repairs are completed) of restoring CMS to productive use after such a seismic event.

Recommendation 9
We recommend that the campus carefully monitor the financial aspects of constructing the Student Athlete High Performance Center (SAHPC) and renovating California Memorial Stadium (CMS). Because DIA income streams have been pledged as the fund source to service the bonds that have been issued for carrying out these two major projects, the outcome of this funding strategy may have an impact on the operating budget of DIA, and hence falls within the charge to our task force. We further recommend that, in light of the indebtedness that has been incurred for CMS, the campus consider purchasing insurance that would provide some assured assistance with the costs of restoring CMS to productive use after a seismic event. Additionally, we urge the campus to consider specific strategies for how to accommodate this debt payment if other unforeseeable events occur that would impact the ESP, such as another economic downturn (or failure to adequately recover from the one we are currently in) or a dramatic change in the performance of our football team. Finally, we recommend that, if a substantial endowment is generated by 2043, some of these funds be used to repay the loans that the campus has made to DIA over the years.

CONCLUDING REMARKS AND RECOMMENDATIONS

The exploding costs of intercollegiate athletics programs that were described in the section on the structure of DIA and in our recommendations 1 through 4 are a concern to almost all colleges and universities. This concern is noted, as well, in reports issued by the Knight Commission. Many people have observed that the escalation of cost in intercollegiate athletics has elements of an arms race to it. Hoping that positive steps can be taken to control it, we present the following:

Recommendation 10
We recommend that the athletic director intensify her efforts with the Pac-10 to put in place regulations that would reduce the current "arms race" among Division IA schools that is driving unreasonable increases in expenditures. We further recommend that the Chancellor take the lead in pushing for such regulations in the NCAA to tamp down the arms race on a national basis. The Chancellor should make use of his own prestige and the prestige of UC Berkeley in this effort. We note that in conversation with the task force, EVP Brostrom voiced strong support for such efforts and offered to be of assistance in them.

The second bullet point in the task force's charge asked us to provide advice on a long-term strategy for integrating athletics directed with other forms of philanthropy. In response, we offer the following:

Recommendation 11
We recommend that current collaborations between the campus development office and DIA fund-raising be maintained and further developed. As part of the task force's charge, we were asked to advise on a long-range strategy for integrating athletics-directed forms of philanthropy with those targeted to the academic mission. Our investigations of fund-raising strategies and operations lead us to believe that the interface between athletic-directed and academic-directed philanthropy is currently managed well. There is no evidence, for example, that the development program has ever directed would-be academic donors to athletic programs, as some have feared. In fact, it may be advisable for the DIA, with support and coordination from campus development, to pursue a program of athletics-directed philanthropy more aggressively to help reduce their reliance on a yearly subsidy and adhere to the step-down trajectory toward a delta of zero. We accept the view of VC-UR Biddy that donors to academic and athletic philanthropy have distinct and nonoverlapping motivations, and hence we assume that further development of athletic philanthropy will not have adverse effects upon other campus development efforts.

The third bullet of the task force's charge asked us to recommend the proper permanent financial and other oversight for intercollegiate athletics. In 2005 and 2006, the Division was confronted with a choice in the manner in which it would fulfill its responsibility in shared governance with regard to intercollegiate athletics. One pathway was to create a Divisional committee on intercollegiate athletics as UCLA had done. The other route was to sign onto a joint Senate/administration entity that would provide guidance to DIA and the Chancellor. In cosponsoring the

UAB, the Division opted for the second pathway as it was felt at the time that this would provide a more effective way for the Senate to be heard on these issues.

Because the full UAB has been too big to be effective, the real work has devolved to its subcommittees. While some of UAB's subcommittees have been successful—its campus climate subcommittee has been reasonably successful, and its gender/equity subcommittee has been very successful—its budget subcommittee has not been able to exercise meaningful independent oversight, and we believe its failures led to the appointment of TFIA.

The task force considered three possible choices for a recommendation that responded to this third part of our charge:

1. Recommend that the Senate's role in the DIA budget be carried out by the UAB subcommittee on budget restructured in some way so as to be more effective.

2. Recommend the creation of a new Senate standing committee to deal with DIA budget issues.

3. Recommend that the task of offering Senate advice on DIA budgetary issues be placed in the charge of an existing Divisional standing committee.

The first choice is not viable by itself given the structure of UAB. Based on the experiences of the faculty who have served on it, we conclude that the Senate voice gets lost because of the intrinsic structure, which creates circuitous interactions among the Senate, the vice chancellor for administration, and DIA and their staff, as well as because of the lack of continuity from year to year.

The second option recommending the creation of a new Senate standing committee with a very limited charge would not be received with much enthusiasm by Senate leadership, who have been trying to stem the growth of new Senate committees. Also such a committee would be separated from other related DIA issues that are dealt with by the UAB's subcommittees and would be isolated from the whole set of issues surrounding the campus budget in general and how DIA relates to the larger budgetary picture.

The third option is our preferred one, and we suggest that the natural committee to be assigned this responsibility would be the Committee on Academic Planning and Resource Allocation (CAPRA). CAPRA was the committee to bring the matter of DIA budget deficits to the attention of the Senate some six years ago, and moreover CAPRA has a broad perspective on campus budgetary matters and priorities. In addition, CAPRA has a seat on the Divisional Council through which it can bring matters to the attention of the council in a forceful manner. A subcommittee of CAPRA consisting of three or four members to be appointed by the Committee on Committees should be assigned to address DIA budget issues. In addition, we recommend strengthening the UAB budget subcommittee and making the appointments of Senate members for longer terms, and also ensuring substantial overlap of the CAPRA subcommittee membership and the Senate membership on the UAB subcommittee on budget.

Recommendation 12
We recommend that the Senate continue to exercise its shared governance responsibilities with respect to DIA budget matters through the formation of a special subcommittee of CAPRA, consisting of three or four faculty members, appointed by the Committee on Committees, who should serve extended terms. We recommend that this subcommittee file annual reports to the Divisional Council. Further, we recommend that this subcommittee membership overlap with the group of Senate members appointed to the UAB budget committee. We believe that thus integrating the Senate's monitoring of DIA within CAPRA will be more effective than the suggestion of a separate standing committee. Finally, we recommend that this task force be discharged after filing its final report.

APPENDIX A

RESOLUTION PASSED AT THE FALL DIVISION MEETING
November 5, 2009
(approved by vote of 91-68)

Resolution on Intercollegiate Athletics at UC Berkeley

Whereas, Although it is widely believed that the Department of Intercollegiate Athletics (DIA) earns a profit for the Berkeley campus, its financial statements reveal that it significantly outspends its revenues every year, depleting precious campus resources;

Whereas, For the most recent 5-year period for which the DIA has released detailed data (2003-08) its cost to campus has been at least $10 million every year except for 2007-08 for which the cost was $7.4 million;[3]

Whereas, Current estimates for the most recent fiscal year (2008-09) indicate that the cost to the campus is expected to be a record high of approximately $13.5 million and is expected to be even higher for the current fiscal year (2009-10);[4]

Whereas, The DIA has cost the campus approximately $160 million since 1991;[1]

Whereas, The DIA is authorized to operate as an Auxiliary Enterprise on a financially self-supporting basis;[5]

Whereas, The DIA's services are provided directly to only approximately 900 among 35,000 students (or 2.5%) at the Berkeley campus;

Whereas, Student-athletes are given a wide range of special privileges and perquisites not accorded to regular students, including course enrollment priority, exclusive tutoring, exclusive conditioning and practice facilities, subsidized superior residence facilities, personal transportation, hotel stays before home games, and more;

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[3] Computed from UC Berkeley Senate CAPRA estimates and DIA financial statements as shown on: http://budgetcrisis.berkeley.edu/?page_id=16

[4] The DIA has not provided us detailed financial information for the 2008-2009 fiscal year; only this estimate.

[5] Auxiliary Enterprises "are those non-instructional services provided to individuals, primarily students, in return for specific user charges. These services include student housing, **intercollegiate athletics**, food services, and parking. Auxiliary Enterprises are self-supporting and are not subsidized by the state", Governor's Budget 2009-10; http://www.ebudget.ca.gov/StateAgencyBudgets/6013/6440/program_description_50.html

Whereas, The Berkeley campus is about to incur a much larger $457 million debt risk through external financing of $321 million[6] to renovate the California Memorial Stadium and $136 million[7] to construct the Student-Athlete High Performance Center (SAHPC), a facility with access that will be restricted to only 450 student-athletes, less than 1% of the students, staff, and faculty on campus;[8]

Whereas, This $457 million dollar debt is being arranged to be repaid by the DIA, despite the fact that the DIA operates at a loss;

Whereas, Recreational activities and facilities, which could benefit the mental and physical health of all students, staff, and faculty in the UC Berkeley campus community, are underfunded and understaffed;

Whereas, The scholarly literature[9] shows that it is a misconception that intercollegiate athletics earns money for universities and even the NCAA reports that increased spending on athletics does not increase alumni donations to the university (which prompted the NCAA president to advise college presidents to reconsider their institutional spending on sports);[10]

Whereas, Refereed journal articles conclude that the evidence shows increased giving to athletics often brings with it a decline in academic fund-raising at the same institution;[11]

Whereas, Only one-third of Cal's Men's Basketball players and one-half of the football players graduate[12] and Cal's football graduation rate is near the bottom of the Pac-10 Conference;[13]

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[6] Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing, Berkeley Campus, Meeting of the UC Regents, Sept. 17, 2009, document GB, page 3.

[7] Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing, Student Athlete High Performance Center, Berkeley Campus, Meeting of the UC Regents, Feb. 3, 2009, document GB1A, page 3.

[8] ibid., page 9.

[9] List of references at: http://budgetcrisis.berkeley.edu/?page_id=16.

[10] The *Empirical Effects of Collegiate Athletics*, reports commissioned by the NCAA, by Robert E. Litan, Jonathan M. Orszag, and Peter, R. Orszag, 2003 and by Jonathan M. Orszag and Peter, R. Orszag, 2005.

[11] Jeffrey L. Stinson and Dennis R. Howard, "Scoreboards vs. Mortarboards: Major Donor Behavior and Intercollegiate Athletics", *Sport Marketing Quarterly*, 2004,13, pp. 129-140.

[12] 2008 NCAA Division I Federal Graduation Rate Data, http://web1.ncaa.org/app_data/inst2008/107.pdf

Whereas, The second largest line item (after health care) in the annual student registration fee (paid by both undergraduate and graduate students) is for Intercollegiate Athletics, amounting to $2 million annually, provided to the DIA by non-athlete students to benefit the approximately 900 athletes and to subsidize ticket prices for event attendees;

Whereas, Competitive intercollegiate athletics is not part of the core UC mission of "undergraduate education, graduate and professional education, research, and other kinds of public service, which are shaped and bounded by the central pervasive mission of discovering and advancing knowledge"[14]; and

Whereas, The university is facing historically severe financial pressures, putting core-central activities at risk;

Be it therefore RESOLVED, that:

1. The faculty recommends that the Chancellor put Intercollegiate Athletics on its intended self-supporting basis, taking immediate action to effect the following:
    a. All funding of Intercollegiate Athletics from campus subsidies and the use of student registration fees cease immediately (or as soon as possible to the extent permitted by existing contract constraints).
    b. The DIA cease annual deficit spending and the Berkeley campus not permit Intercollegiate Athletics to spend beyond its actual annual direct revenues. [13]
    c. All DIA coaching compensation be subject to full furlough unless the DIA has a net annual profit based on direct revenues[15] large enough to cover the furlough amounts.
2. The faculty recommends that the Chancellor take immediate action to ensure that Intercollegiate Athletics develop a viable plan, by the Spring meeting of the Berkeley Division of the Academic Senate, to retire the cumulative debt to the Berkeley campus.
3. The faculty recommends that the Chancellor and the development staff urge donors to prioritize academics at the Berkeley campus.
4. The Academic Senate establish a Senate Intercollegiate Athletics Oversight Committee composed solely of Senate members to oversee the DIA operations, to promote transparency and clarity, and to confirm the satisfactory accomplishment of the above items.

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[13] "In classroom, Bears must finish what they start", by Tom FitzGerald, *San Francisco Chronicle*, Sunday, November 30, 2008, http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/11/30/SPKG146T55.DTL

[14] University of California Academic Plan, 1974-1978

[15] Direct revenues do not include any campus subsidies or student registration fees.

Respectfully submitted,

Alice M. Agogino, Professor of Mechanical Engineering
Brian A. Barsky, Professor of Electrical Engineering & Computer Sciences
Leslea J. Hlusko, Associate Professor of Integrative Biology
Jere H. Lipps, Professor of Integrative Biology
Margaretta Lovell, Professor of Art History
Laura Nader, Professor of Anthropology
Michael O'Hare, Professor of Public Policy
Loy Volkman, Professor Emerita of Plant and Microbial Biology

APPENDIX B

FAILED SUBSTITUTE MOTION AT THE FALL DIVISION MEETING
November 5, 2009
(failed by vote of 99-58)

We move to substitute for all clauses and paragraphs of the pending motion the following resolution:

"Whereas the University of California, Berkeley is experiencing significant financial stress and whereas the Department of Intercollegiate Athletics is operating at a substantial deficit, it is resolved that the Senate Budget Working Group recommend a new financial plan for Intercollegiate Athletics to the Chancellor and the Academic Senate.

So as to insure coordination with the planning process underway in the Department of Intercollegiate Athletics, for the purpose of this resolution only, the Senate Budget Working Group should be expanded to include as ex officio members the Vice Chancellor for Business Administration and the Director of Intercollegiate Athletics.

The plan should be guided by the report of the Committee on Academic Planning and Resource Allocation approved at the April 19 2007 meeting of the Senate. The plan should propose a determinate amount for the campus subsidy for Intercollegiate Athletics and set a shortened, realistic time frame for achieving the self-sufficiency of Intercollegiate Athletics.

The proposed plan should assume continued membership of the University of California, Berkeley in the Pacific-10 conference and fully comply with the campus's commitment to Title IX and women's athletics.

The plan should be submitted before the spring 2010 meeting of the Academic Senate.

SUBMITTED BY :

Martin Sanchez-Jankowski (Sociology)
Gary Firestone (Molecular and Cell Biology)
Georjana Barnes (Molecular and Cell Biology)
Gordon Silverstein (Political Science)
Michael Botchan (Molecular and Cell Biology)
Leonard Bjeldanes (Nutritional Science and Toxicology)
David Drubin (Molecular and Cell Biology)

APPENDIX C

LETTER TO THE CHANCELLOR CIRCULATED BY PROFESSORS KARL PISTER, DON MCQUADE, ANDREW PACKARD, AND PANAYIOTIS PAPADOPOULOS

November 16, 2009

Dear Chancellor Birgeneau:

We, the undersigned, members of the Berkeley Division of the Academic Senate, write to you in the wake of the November 5, 2009 Divisional meeting, in which the attendant Senate members approved a resolution urging that Intercollegiate Athletics (IA) become financially self-sufficient "immediately or as soon as possible to the extent permitted by existing contract constraints." The resolution reflects a serious concern about the deficit in Intercollegiate Athletics, and the need not only to repay the deficit but also to put IA on a sound financial footing for the future.

We believe that these are important issues that must to be addressed in a deliberate, measured, and effective manner. To this end, we urge you to work with the leadership of Intercollegiate Athletics to repay its deficit, rework its financial model, and delineate appropriate future institutional support levels.

We also urge you to reaffirm the importance of Intercollegiate Athletics in our teaching and learning community as well as in our alumni relations. In addition, we recommend that you continue to engage the counsel of faculty, students (including student-athletes), and alumni in your deliberations on these important matters. In particular, we encourage you to draw on the spirit and substance of the work already done on these matters by our Senate colleagues, and especially the 2005-06 report of the University Athletic Board and the 1991 report of the Smelser committee, which concludes:

"First, athletics on campus should be brought to the top levels of achievement on the Berkeley campus. Second, this goal should be pursued in ways consistent with Berkeley's enduring commitments to academic values and scholarly pursuits. Third, the Committee regards the goal as attainable through a combination of effective leadership and a sufficient input of resources over the years."

The principles and practices articulated in this report have guided campus leadership since its publication, and we believe that they reflect long-standing values of our university.

Signed:

The letter has been signed by 143 members of the Berkeley Division as of the end of calendar 2009.

APPENDIX D

MISSION STATEMENT OF THE DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

University of California, Berkeley, Department of Intercollegiate Athletics Mission Statement

January 2008

The mission, vision and values of the University of California Department of Intercollegiate Athletics express the motivation we have to be part of an institution that strives for comprehensive excellence. We are committed to incorporating our mission, vision and values into the culture of our department in order to achieve our goals.

Mission
To Teach, Serve, Compete and Excel

Vision
To be the best intercollegiate athletic program in the country

We define this in the following ways:

- A student–athlete experience that uniquely combines the campus' academic rigor with a commitment to high performance athletics
- Being a great campus and community partner
- A place where individuals can grow and develop to their utmost potential
- A fulfilling place to work

Values
- Integrity
- Passion
- Respect
- Teamwork
- Innovation
- Diversity
- Professionalism

APPENDIX E

ANALYSIS OF THE ACCOUNTING STATUS OF INTERCOLLEGIATE ATHLETICS IN THE UNIVERSITY OF CALIFORNIA

University of California
Summary: Analysis of Accounting Status of Athletics Programs
April 22, 2010

Reference: Requests for an analysis of policy and practice involving the accounting status of athletics programs at UC Berkeley.

Background: The University of California Office of the President undertook an analysis of policies and financial accounting practices regarding athletics as both an Auxiliary Enterprise and Student Services activity. This analysis was initially prompted by the ongoing review of the Intercollegiate Athletics program on the Berkeley campus. It was broadened in response to external inquiries, including one from the Daily Californian on April 8, 2010.

Summary: UC athletics programs encompass both student recreation and intercollegiate athletics at multiple levels, taking on the characteristics of both Student Services and – because of ticket sales and other revenues – Auxiliary Enterprises.

Auxiliary Enterprises include housing, food services, parking and bookstores. Student Services are programs and activities that contribute to students' intellectual, cultural and social development outside the formal instructional process.

At UC's Berkeley and Los Angeles campuses, athletics operations include Auxiliary Enterprises and Student Services functions. Though UC San Francisco does not have an intercollegiate athletics program, that campus also budgets recreation under both Auxiliary Enterprises and Student Services. At the other seven campuses, athletics are operated exclusively as Student Services. Athletics programs on most campuses also have a Financial Aid component.

The financial activity within Intercollegiate Athletics reflects the hybrid nature of the program. Revenue associated with intercollegiate home games at UC Berkeley (ticket sales and concessions), merchandising and summer camps are recorded in an Auxiliary Enterprises fund. Private gifts received for the athletics program are used to fund Auxiliary Enterprises, Student Services and Financial Aid. Expenses related to marketing, events management (ticket takers, officials and security, including costs of events that do not charge for admission), camp administration and the ticket office are recorded to Auxiliary Enterprises. In addition, direct expenditures for football and men's basketball, including salaries and benefits of coaches and staff, are recorded as Auxiliary Enterprises.

Expenses for other sports (excluding home game-related expenses), including salaries and benefits for coaches and staff, are recorded as Student Services, as are expenses associated with athletics units that support all teams, such as the sports medicine unit. Some of the Auxiliary Enterprise revenue at UC Berkeley is expended under Student Services in support of various men's and women's intercollegiate teams, and support units.

The university's system-wide policy on the establishment and review of Auxiliary Enterprises was written nearly 30 years ago, when athletics programs were not considered to include auxiliary activities. The policy was issued by then-President David Saxon on April 6, 1981. A business and finance bulletin, BUS-72, published May 1, 1981, defined auxiliary enterprises as "self-supporting activities which provide non-instructional support in the form of goods and services to students, faculty, and staff upon payment of a specific user charge or fee...The general public may be served only incidentally by these enterprises." Examples of Auxiliary Enterprises were housing, non-housing food service operations, parking, bookstores and student centers. (http://www.ucop.edu/ucophome/policies/bfb/bus72.html)

A UC accounting manual distributed in June 1996 included Intercollegiate Athletics among the possible types of Auxiliary Enterprises operated on university campuses. The manual, however, does not address either the underlying issue of whether a portion of an Intercollegiate Athletics program is appropriately defined as an Auxiliary Enterprise or whether the policy is relevant only to those parts of the program that meet the definition of an auxiliary. (http://www.ucop.edu/ucophome/policies/acctman/a-783-1.pdf)

Conclusions:

- Allocations of support to athletic departments – provided by Chancellors at their discretion from non-state, non-education fee, unrestricted sources – is a practice consistent with university policy. Chancellors typically provide such support to a wide range of student services.

- Chancellors can, if the need arises, provide subsidies to auxiliary enterprises and still comply with relevant policies. UCOP policy (BUS-72) does anticipate that there will be instances in which Auxiliary Enterprises are not fully self-supporting and cites examples of instances in which the Chancellor may provide non-state funding. The policy has not been updated to fully reflect the current hybrid financial structure of auxiliaries and intercollegiate athletics.

- The use of Registration Fee Funds by Chancellors in support of athletics and recreation – whether recorded as auxiliaries or student services – conforms with Regental policy stating that the registration fee "may be used to support services which benefit the student and which are complementary to, but not a part of, the instructional program." (http://www.universityofcalifornia.edu/regents/policies/3101.html)

- UC Berkeley's Athletics Department has been incorrectly characterized as being exclusively an Auxiliary Enterprise, even though it includes a major Student Services component, as reflected in publicly available financial reports for the past 10 years. In other words, despite the erroneous descriptions of the department's status, staff responsible for maintaining financial records have been operating in a manner consistent with the reality that on the Berkeley campus intercollegiate athletics is a hybrid program.

- Neither policy nor the accounting manual anticipates or addresses the existence of hybrid programs, a gap that needs to be addressed.

APPENDIX F

BIBLIOGRAPHY ON ATHLETICS AND FUND-RAISING

Key to Coding—a plus sign (+) sign before the paper indicates the findings are generally more positive than negative on the connection between athletic success and academic fundraising; a minus sign (–) indicates the findings are generally neutral or negative, while a zero (0) indicates results too ambiguous or not on sufficiently on point because of the institutions considered to classify.

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APPENDIX G

RISK ANALYSIS OF FUNDING STRATEGIES FOR CMS AND SAHPC

To obtain estimates for returns on invested funds over a 30 year period, we examined annualized returns over the seventy 30 year periods beginning with 1910-1940 and up to the present on an 80/20 (equity/fixed income) portfolio. From a CPI table we computed the annualized rate of inflation for these 30-year periods, and subtracted it from the return on investment to get real rates of return for these 30-year periods. After chopping off a high-end tail (a conservative assumption), the distribution of annualized real return was, to a reasonable approximation, a flat one extending from 4% to 8%. There was no low-end tail. As an estimate of inflation over the next 30 years, we used the difference between the coupon rates that investors paid for the 30 year T-bond and the 30-year TIPS bond from the auction in February 2010. This was 2.5%, and then adding that to the distribution of real returns, we obtain a flat distribution of returns ranging from 6.5% to 10.5%. Since the UC Berkeley Foundation will charge an endowment cost recovery fee of 50 basis points, we subtracted this to get a flat distribution ranging from 6% to 10%. The Foundation will also charge an asset management fee—now 45 basis points—but it is a reasonable assumption that active management of the assets will yield an improvement in the rate of return of at least 45 basis points so we do not make any correction for an asset management fee.

As to fundraising success in the Endowment Seating Program (ESP), we followed in many ways the assumptions used by California Hall in their assessment of the project. We assume a flat distribution between selling 70% of the seats to 90% of the seats with the additional assumption that all but 5% of those not sold in ESP would be sold temporarily at a 50% discount (an assumption included in the campus estimates). We also assumed that all ESP purchases would be yearly purchases instead of advance payment that is all at once or over five years. This is another conservative assumption, as the advance payment sales with the revenue invested will produce more income for the project. The assumptions that California Hall used ranged from 75% to 90% and so adding 70% to extend the range at the low end is another conservative assumption. The estimated yearly revenue for ESP then ranges between approximately $19.5M and $17.5M. Finally we included an additional endowment coming in from naming opportunities in CMS ranging from $10M to $50M after any offset for cannibalization of ticket revenues from ESP. For simplicity, we assume that this additional endowment will vary in step with the ESP sales.

The latest and best information is that the interest rate on the bond issue that will contain funding for the CMS project will come in at 4.5%, and this is regarded as a conservative estimate by UCOP in that it could well come in at a lower rate. With a 4.5% interest rate on $321M of debt, the yearly interest-only payments for the first 20 years come to approximately $14.5M and rise to approximately $40.5M for the final ten years of amortization. There is also a final correction in the last 2-3 years owing to the fact that the ESP yearly fund flow stops before the bonds are paid-off. With this information one can easily construct a simple difference equation that will calculate the value of the FFE (Funds Functioning as Endowment) at the end of 30 years using the various assumptions laid out above about investment return and fund raising success. Alternatively, one may smooth the payments and investment returns to a continuous process and then construct a simple differential equation to do the calculation instead. One obtains almost exactly the same result either way. Simple calculations using the median value of 8% return on investment and the median success in fund-raising, yield an estimated end balance in the FFE is about $320M.

One may do a similar but simpler calculation for SAHPC. The bonded debt is $124.02M and the interest rate on the bonds is 3.94%. The yearly interest-only payments are 4.921M running for 20 years beginning in 2012, followed by 12 years of interest plus principal payments of 13.591M. The fund-raising is complete except for actual receipt of some pledges. The fund-raising is mixed as some donations came before the FFE concept was put in place and are hence not FFE - eligible. There is also a ticket surcharge that started in 2008 which produces a little over $1M per year now but which rises to $2.1M in the out year (2043).

For simplicity, we used some of the accumulated ticket surcharge money plus the non-FFE contributions to pay the debt service for the fist four years, and then started the FFE calculation in 2016 and ran it for 16 years, and then for another 12 years for the amortization period. The FFE contributions are assumed to gather interest during these first four years (some of it is still scheduled to come in installments, but almost all of it will be in hand by 2012.) The ticket surcharge brings in $1.3M in 2016 rising to $1.9M in 2031 so we averaged it at $1.6M for the first 16 years, and then we used an average of $2.0M for the final period of 12 years. The calculation of donations plus interest plus some leftover ticket surcharge, which is FFE eligible, yields an initial FFE of $65M in 2016. The only assumptions that vary are the return on investments, and we use the same range of 6% to 10% that was used for CMS. The estimated end balance of the FFE for SAHPC using the median value of investment return of 8% is approximately $70M.

All of these models assume that the rate of return on investments is constant during the 30 –year period, something that would not be at all true in the real world. Rather, the returns would fluctuate from year to year with an average as specified in the model. One could make the model for assumed average rate of return and an assumed level of success in fund-raising more realistic (and much more complex) by adding a stochastic element. Using data on yearly fluctuations in the rate of return on investment, one could select a suitable mean zero random variable that reflected those fluctuations. Then take thirty independent identically distributed copies of this random variable and add them to the assumed average rate of return for each year of the 30 years of the model. Running the difference equation with random variables as coefficients then yields a probability distribution, rather than a single number, for the FFE with an assumed average rate of return and an assumed level of success in fund-raising. Estimation of the shape of this distribution and its mean would presumably have to be done by Monte-Carlo methods. One could also modify the smoothed model using a differential equation in a similar manner. In the end, it is quite reasonable to assume that the mean of the probability distribution resulting from these stochastic models would be close to the result of calculation using a constant rate of return. We did not explore such a stochastic model as it seemed not to contribute enough additional precision in the results to justify the very substantial additional complexity. However, a numerical calculation of a toy stochastic model for CMS in which the random variable added to the return rates was a Bernoulli random variable, which took the value 0.02(2%) and -0.02 (-2%) each with probability 1/2 yielded, an expected value of the FFE exactly the same as that coming from the non-stochastic model. Or to explain this model more simply, if one assumes say an 8% return on investment, the original model used an 8 % return each year. The stochastic model above will instead flip a coin at the beginning of each year, and will use a return on investment for that year of either 6% or 10% depending on whether the coin flip was heads or tails. There will be total of 30 independent coin tosses. To compute the mean (in theory), one would have to average the results over all possible sequences of 30 coin tosses. In practice, one gets out ones handy random number generator and runs a number of trials and then averages over these trials.

However, it is well to sound a word of caution: given the uncertainties of fundraising, the uncertainties of the athletic success of the football team, the ultimate level of success of the ESP program, and the uncertainties of the financial markets over the next 30 years, the error bars on these results have to be assumed to be enormous.