THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF FINANCE

SHOULD THE NCAA ALLOW ITS ATHLETES TO RECEIVE MONETARY COMPENSATION

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A thesis submitted in partial fulfillment of the requirements for a baccalaureate degree in Finance with honors in Finance

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ABSTRACT

Since the turn of the 21st century, the debate surrounding the compensation of NCAA athletes has been growing exponentially. College athletics as a whole has become a billion dollar a year industry, but its participants see no financial benefit from this except for the scholarships they receive. Our society today is driven by the principles of a free market economy. As such, individuals have the opportunity to benefit financially from marketable skills they possess. Therefore, it is difficult to understand why this principle does not apply to revenue generating college athletes. This paper attempts to discover a way to compensate these athletes more fairly, while maintaining the integrity of intercollegiate athletics in the process. By analyzing both quantitative and qualitative factors related to this issue, I seek to find a plausible method that more fairly compensates the athletes in question. I consider financial data from the NCAA, its conferences, and its member universities, and attempt to create sustainable methods for compensating these athletes that represent their marketable values. I also consider nonfinancial factors related to the implementation of these methods, such as their feasibility, sustainability, and the effect on college athletics as a whole. After developing and thoroughly analyzing each of these methods, I will determine which one should be applied in practice based on which has the greatest chance of success.
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Chapter 1

Introduction

History of College Athletics and the NCAA

Origin of College Athletics

The origin of college athletics in the United States dates back over 150 years to 1852, when Harvard and Yale competed in the first competitive intercollegiate event on record: a crew regatta. Over the remaining half of the 19th century, other sports joined the realm of intercollegiate competition, with baseball joining in 1859, football in 1872, and track and field in 1875 (Thelin and Edwards 2017). By the turn of the 20th century, college athletics started to gain increased popularity. However, problems began to arise because there was no governing body established to regulate this intercollegiate competition. “The lack of regulation and fair play both on and off the field left college athletics indelibly marked by corruption and a reputation that has plagued ‘big time’ college sports to this day. More significantly, as the games ‘professionalized,’ brutality often increased.” (Thelin and Edwards 2017). In addition to these problems, there were also issues with matters such as scholarships and eligibility. These complications continued to persist into the first decade of the 20th century, at which time the federal government stepped in, and at the direction of President Theodore Roosevelt, created the National Collegiate Athletic Association (NCAA) in 1906.
The NCAA was created over 100 years ago out of necessity for the survival and reputation of intercollegiate athletics. The stated purpose of the NCAA is “to govern competition in a fair, safe, equitable and sportsmanlike manner, and to integrate intercollegiate athletics into higher education so that the educational experience of the student-athlete is paramount.” (Keelor-Parker 2007). Simply put, the NCAA was created to protect the student-athletes and ensure they were able to pursue their educational goals. Again, at this time the creation of the NCAA was essential because student-athletes were being abused, and left completely unprotected in many ways. For example, in 1905 alone, there were over eighteen deaths and one hundred major injuries sustained in intercollegiate football games (Smith 2000).

In the early years of the NCAA, it faced the difficult task of trying to create rules and restore integrity to competition because the growing commercialization of college athletics greatly outpaced these efforts (Smith 2000). The NCAA was an improvement from the previous ungoverned organization of intercollegiate athletics, but it did not begin to exert the type of influence that it was intended to until the 1950s. In 1951, the NCAA created the Committee of Infractions to enforce the rules it had put forward. Furthermore, at this time, Walter Byers became Executive Director of the NCAA. He had a very strong influence in strengthening the NCAA, and turning it into a well-respected governing body. Lastly, the NCAA negotiated its first TV deal that grossed over a million dollars. These three factors together were a huge stepping-stone for the NCAA, and it continued to become more powerful throughout the
subsequent decades (Smith 2000). From this point on, with the advent of television, the popularity of college athletics, and in turn the authority of the NCAA, continued to expand exponentially.
Chapter 2

Literature Review

Present Day NCAA and Antitrust Law

Present Day NCAA

The present day NCAA has drastically changed from the NCAA that President Roosevelt created in 1906, and from the NCAA that began to exert real power in the 1950s-1960s. The NCAA is bigger and more powerful than ever, and that trend does not seem to be changing in the near or distant future. The stated goals and values of the NCAA have not changed, but with the popularity of college athletics increasing exponentially, the overall landscape of the NCAA as a governing body has changed. In 2006-2007 fiscal year, the NCAA generated total revenues of $621,800,000. This annual revenue is increasing at a rapid pace, and according to the NCAA consolidated financial statements for the 2015-2016 fiscal year, the NCAA grossed total revenues of $995,941,057 (Deloitte 2016). The large majority of this revenue stream came from television contracts. In 2010, the NCAA agreed to a 14 year, $10.8 billion deal with CBS/Turner for the rights to broadcast the NCAA March Madness Tournament. Then in 2016, the two parties signed an 8 year, $8.8 billion extension that carries the contract through 2032 (Sherman 2016). When these future revenues materialize, the NCAA will begin grossing over a billion dollars a year.
NCAA and Antitrust Law

In recent years, many people in the mainstream media have accused the NCAA of violating antitrust laws and creating a labor monopoly. Proponents of this argument believe that the NCAA, which generates revenues of almost a billion per year as stated above, is in violation of the Sherman Antitrust Act by limiting the amount of compensation athletes can receive. One of the biggest defenses against this accusation is that NCAA athletes are fairly compensated in the form of the scholarships they receive. However, others argue that this exact form of wage fixing is in fact in violation of the Sherman Antitrust Act. In 2013, the National College Players Association and Drexel University conducted a study to determine the fair market value of revenue generating athletes, focusing on Football Bowl Subdivision (FBS) football and basketball players. According to the National College Players Association and Drexel University Sports Management Program, “the National Collegiate Athletic Association (NCAA) rules will deny FBS football and men’s basketball players at least $6.2 billion that they would otherwise receive in a fair market between 2011-2015” (Staff 2012). The study used a simple formula that both the NBA and NFL used to determine what percent of revenue generated should be allocated to the players in the form of monetary compensation. The NBA dictated the players receive 50% of all revenues, and the NFL dictated that players receive 46.5% of all revenues (Manfred 2013). The study found that by using this revenue sharing method, the average FBS football player was denied approximately $114,153 in compensation per year, amounting to an average of $456,612 in compensation lost over a four-year career (Huma 2012). For basketball players the gap is even steeper. The average basketball player was denied approximately $265,827 in compensation per year, amounting to an average of $1,063,307 in compensation lost over a four-year career (Huma 2012). The study calculated these numbers by multiplying the
revenue percentages above used by the NFL and NBA for each respective sport by the annual revenue each generated, and subtracting the average scholarship amount received by the athletes in question. The data utilized in the study found that the average scholarship amount each relevant player received amounted to approximately $23,204/year (Huma 2012). The charts below taken from the study shows the top 10 schools for basketball and football respectively, and details the compensation denied net of the scholarships received.

Table 1: $6 Billion Dollar Heist: Basketball

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<thead>
<tr>
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<tbody>
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<td></td>
<td>Average</td>
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<td><strong>$26,462</strong></td>
<td><strong>$875,301</strong></td>
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Table 2: $6 Billion Dollar Heist: Football

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<td>$395,443</td>
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</table>

The numbers in these charts were the most extreme cases of denial of fair compensation. As a whole, the study found that FBS football players only received 17% of their rightful compensation, while basketball players of the same level only received 8% of their rightful compensation (Huma 2012). The data in this study lends significant credibility to the theory that the NCAA has been operating as a labor monopoly.

O’Bannon Lawsuit

It is no surprise that, with this data publically available, lawsuits against the NCAA have ensued since the turn of the 21st century. The most high profile of these cases was O’Bannon vs the NCAA. In 2009, Ed O’Bannon sued the NCAA and Collegiate Licensing Company (CLC),
saying they “conspired to fix at zero the amounts paid to Division I football and basketball players for the use of their names, images and likenesses in violation of the Sherman Act” (Westlaw 2016). In 2010, the Court combined this case with the Keller vs Electronic Arts (EA) case, and the amended complaint included antitrust claims against the NCAA, EA, and CLC (Westlaw 2016). The main argument of the case was rather simple. The plaintiffs stated that because the defendants were using college athletes’ images and likenesses to generate revenue through avenues such as jersey sales, ticket sales, TV contracts, and video game sales, the athletes should be entitled to their fair share of said revenues. EA and the CLC reached a settlement with the plaintiffs for $60 million. Because this lawsuit was a class-action lawsuit, by the time the settlement was reached there were over 24,000 former college football and basketball players who were considered plaintiffs in the case. This $60 million was divided among each of the plaintiffs, and the average payout per player amounted to approximately $1,600 (Good 2016). EA also agreed to stop producing video games using NCAA athletes and their images and likenesses in any form in 2014. The NCAA, on the other hand, carried the lawsuit through to litigation. After years of deliberation and numerous appeals, the court ruled that the NCAA limiting these athletes to compensation in the form of scholarships violated antitrust laws. The Court ruled that these athletes must be entitled to receive the full cost of attendance, which included a $5,000 monetary stipend per year to cover costs in excess of scholarships. However, it did not rule that the NCAA needed to compensate these athletes any more than this fixed $5,000 annual payment (Westlaw 2016). This ruling was the first to confirm that the NCAA is violating antitrust laws, and opened the door for other lawsuits of its kind in the future.
Title IX

Equal Opportunity

In today’s day and age, it is impossible to discuss paying college athletes without discussing Title IX. “Title IX of the Education Amendments of 1972 prohibits discrimination on the basis of sex in education programs receiving Federal financial assistance. Athletics is considered an integral part of an institution's education program and are therefore covered by this law. It is the responsibility of the Department of Education (ED), Office for Civil Rights (OCR), to assure that athletic programs are operated in a manner that is free from discrimination on the basis of sex” (Department of Education 2015). The main objective of Title IX was to create “equal opportunity” for both men and women student athletes. Before this law was passed in 1972, there were only approximately 32,000 women competing in college sports, and almost none of them had athletic scholarships. Just 20 years after the law passed in 1992, over 150,000 women competed in college sports, and the NCAA awarded over 10,000 athletic scholarships to female athletes each year (Lancaster 2014). When it comes to equal opportunity, Title IX covered everything from scholarships, to facilities, to equipment, to travel allowances, and everything in between (Lancaster 2014). Title IX made tremendous changes to the landscape of college athletics, offering female athletes more opportunities through this concept of equal opportunity.
The one item that Title IX does not specifically discuss is the payment of college athletes beyond their scholarships and other benefits they receive. At the time of the law’s inception, the idea of paying college athletes was not even an afterthought. Now, as the question of monetary payment for college athletes continues to arise, experts are trying to determine how Title IX factors into the equation. Proponents of Title IX believe that if the NCAA pays male athletes, then it also has to pay female athletes as well to maintain equality (Buzuvis 2015). However, the process of paying college athletes does not necessarily relate to equal opportunity, and therefore does not fall under the umbrella of Title IX. In the proposed revenue sharing model of compensation, numerous intercollegiate athletic programs, both male and female, would not receive this compensation because they do not actually generate revenue. Title IX is designed to prevent discrimination based on gender (Department of Education 2015). When the discussion surrounding the potential of paying these athletes is brought up, it is not being done so on the basis of gender; rather it is being done on the basis of revenue generated by the athletes (Westlaw 2016). Therefore, because it is an issue of revenue sharing and not gender, Title IX has no bearing on the discussion. Renowned sports attorney Jeffery Kessler states, "Title IX says nothing about the issue of compensation. Title IX talks about giving equal opportunities to participate in athletics, which this case wouldn't change one way or another… It's really no different now than the head football coach at Alabama, I'm sure, makes more money in salary than all of the female coaches at Alabama put together. That's not a Title IX violation" (Solomon 2015). Kessler makes the valid point that all of the tenants set forth in Title IX requiring equal opportunity to compete at the intercollegiate level do not change. Both male and female athletic programs are still entitled the same proportion of scholarships, use of facilities, equipment, and
travel allowances that they receive before said revenue sharing commences. Title IX is a very important law and serves a great purpose, but because this is an issue of revenue sharing and not gender it has no bearing on whether the NCAA is required to pay revenue-generating athletes.

Arguments Against Revenue Sharing

Amateurism

One of the arguments against revenue sharing in college athletics originates from the idea of amateurism. The NCAA argues that amateurism in college athletics is a significant contributing factor to the success of college athletics. Other authors support this idea as well. For example, Khan (2007) writes, “the potential effects on fan demand of amateurism…”

Kahn (2007) also states, “It is theoretically possible that demand for amateur college sports is much higher than demand for college sports would be if players were treated as professionals.” On the other hand, later on Kahn admits, “no evidence exists on this point” (Kahn 2007).

Santesteban and Leffler (2017) take the opposite stance on this point, and assert that amateurism in college athletics does not contribute to its high demand (Santesteban 2017). “We find that neither logic nor evidence supports the necessity of amateurism to maintain fan interest in top-level college sports” (Santesteban 2017). To support this point, they use the concept of The Olympics to demonstrate the concept of demand in non-professional sports. In 1960, the
International Olympic Committee emphasized that if it allowed professionals to compete, the popularity of The Games would significantly diminish. Then over 20 years later in 1982, the IOC loosened the amateur rule to allow athletes to accept endorsements and prize money. Later, in 1993, they amended the rule further and allowed Olympic athletes to receive pay directly (Santesteban 2017). Today, many of the athletes who compete in the Olympics are professionals, and the popularity of the Games has not diminished, rather it is at an all-time high. Santesteban and Leffler (2017) take this evidence and apply it to college athletics. They assert that paying college athletes would not have an adverse effect on overall popularity. Former NCAA Executive director Walter Byers also echoes the sentiments of Santesteban and Leffler. In his memoir *Unsportsmanlike Conduct*, he says, “Amateurism… is an economic camouflage for monopoly practice” (Huma 2012). This brief yet profound statement is an indictment of the NCAA for using amateurism as a blanket concept to prevent college athletes from receiving their rightful compensation.

*Student-Athlete: Student first*

Since the inception of intercollegiate athletics, the NCAA has always considered its athletes as student-athletes. This means that they are students first, and athletes second. The NCAA believes that paying athletes more than just their scholarship takes away from the student aspect of this equation, and makes athletics the top priority. While this seems like a legitimate idea in theory, many argue that in a way, this ship has already sailed. They assert that because of the immense popularity of high profile college sports, athletics already surpasses academics as the top priority. Neuhauser (2014) says, “Sports have become bigger and bigger and moved
away from the leisure side of things to a full-fledged unquestionable business” (Neuhauser 2014). Neuhauser also notes that many college athletes dedicate 50 to 60 hours a week to their sport. This fact combined with a rigorous travel schedule that results in many missed classes also supports the fact that, for top-level college athletes, athletics already surpasses academics in importance. Furthermore, there is numerical data gathered by the NCAA themselves that contradicts the assertion that student-athletes are students first. Concerning student-athletes, federal graduation rate information shows that, “Only 47% of NCAA Division I men’s basketball and 57% of football players graduate within a six-year window of time” (Staff 2012). By the NCAA’s own admission, only about half of these athletes even realize their goals of achieving a college degree. As college athletics continues to generate increasingly large revenues as, it is clear that in reality academics are not becoming more of a focus than they are right now.

**Competitive balance**

A third argument against revenue sharing in college athletics is paying these athletes will shift the competitive landscape of college sports, and the competitive level among teams as a whole will become more polarized. The NCAA believes that if athletes are paid, only the best schools will be able to afford the best players, and the middle tier teams will no longer be able to compete. The NCAA believes this lack of competition will lead to a decrease in the popularity of college athletics. However, Santesteban and Leffler (2017) refute this point, noting that even now with pay restrictions, college sports are already highly imbalanced (Santesteban 2017). They take this argument even further, saying that allowing teams to pay athletes may in fact improve the competitive landscape of college athletics. “Loosening pay restrictions could allow
weaker teams to become more competitive… In a more flexible pay system, weaker schools would be able to easily reshuffle money away from coaches and other parts of athletics to attract top-level talent. This could allow weaker schools to attain better outcomes in the field and obtain a larger share of the significant pool of revenues available.” (Santesteban 2017). I will discuss this concept further in the results section of the paper. This simple and logical concept helps disprove the idea that paying college athletes will destroy the competitive landscape in the market.
Chapter 3  
Methods

The hypothesis this paper states is that the NCAA must be required to allow revenue generating college athletes compensation in excess of the current limitation set by scholarship amounts. The next step is to develop a suitable method to carry out this compensation process. Because of the financial structure and the current makeup of the revenue distribution process in college athletics, finding a suitable method to pay these athletes is much more complicated than it is for professional sports. Here, I will consider three different methods, and the implications each one has on the overall makeup of college athletics.

**Fair Market Revenue Sharing Method**

The first potential payment method to consider is to pay these athletes at their fair market value, as if they were employees on an open market. Because of the extensive differentiation across universities that compete in intercollegiate athletic competition, the most efficient and effective way to illustrate this method is to use one specific university, and one specific program as an example. For purposes of illustration, I will use Penn State University’s Division I Big Ten football team to demonstrate.

The first step in implementing this compensation method is to consider the comprehensive value of an athletic scholarship for the athletes. At Penn State, the full cost of attendance for a student in the 2015-2016 school year was approximately $31,630 for in-state
students, and approximately $46,112 for out of state students (Trustees 2017). Under the current “compensation” method permitted by the NCAA, the total compensation given to these athletes covers the above costs, plus a $5,000 stipend resulting from the O’Bannon case ruling to cover additional costs with attending the university. This sets the total compensation allowed for in-state football players to be approximately $36,130, and approximately $51,112 for out of state football players.

The next step in applying this method is to determine how much revenue Penn State athletics allocates to the football team. This is where the process becomes more complicated than just modeling after the NFL revenue sharing model. The attributable revenue to Penn State football comes from three main sources. The first is the total revenue generated by the football program itself, independent of allocations it receives from the Big Ten Conference and the NCAA. For Penn State, during the 2015-2016 season, the football team generated total revenue of $75,527,152 (Pianovich 2017). The second source of revenue comes from the total revenue that the Big Ten conference allocates to the football team. Under current Big Ten rules and agreements, the conference distributes its revenue evenly to each member university. Without altering this contractual agreement between the conference and its member universities, in the fiscal year 2015-2016 each university received an even share of $36.3 million. The Big Ten expects this number to increase dramatically in the near future (Vint 2017). Herein lies a potential complication in calculating total revenue attributable to solely the football program. As it currently stands, Penn State sponsors 31 athletic programs, many of which do not generate revenue for the university. However, despite this fact, each of these 31 sports receives a share of this Big Ten revenue to help fund its operations. In the 2015-2016 athletic year, Penn State athletics as a whole generated $125.7 million in revenue (Gaines 2016). If Penn State allocates
this revenue equally across each program based on its contribution to the total, Penn State
football receives the majority of this Big Ten conference revenue, which amounts to
approximately $21.8 million. The third source comes from the allocation of total revenue that
the NCAA generates. This is even more complicated to calculate than the Big Ten allocation,
because the NCAA distributes 60% of its revenue to over 1,000 member universities, each of
which has numerous athletic programs. The NCAA distributes revenue through a variety of
allocation funds: Conference Grant, Basketball fund, Grant-in-Aid, Sports Sponsorship fund,
Student Athlete Assistance fund, Academic Enhancement fund, Special Assistance fund, and the
Student Athlete Opportunity fund (Statista 2017). Of the funds the NCAA allocates to the
individual universities, the universities use all of them for academic purposes, except the
Basketball fund and the Sports Sponsorship fund. The NCAA allocates the Basketball fund only
to basketball programs, because it is the universities’ shares of the NCAA March Madness
television contract with CBS and Turner Sports (Schlabach 2011). That means only the Sports
Sponsorship fund is allocated to Penn State football and not assigned to academic funding. Each
university receives a fixed amount of this fund based on total scholarships sports programs it
offers. Penn State falls into the highest category for being a school that sponsors 24 or more
sports. This highest tier receives approximately $439,646 for each sport it sponsors (Schlabach
2011). This means that the NCAA allocated approximately $439,646 to Penn State football in
the 2015-2016 season. Based on these facts, assuming revenue is allocated to Penn State football
based on its total market value, the football team is allocated $97,766,798 in revenue for the
2015-2016 season. At this point, Penn State uses a percentage of revenue to allocate a share of
this to the players in the form of compensation. For sake of argument, assume college football
programs use the same 46.5% that the NFL uses to share revenue with its players. This allocates
about $45.5 million to Penn State football players, which amounts to about $535,842 annually per player, assuming the team roster is comprised of the NCAA limit of 85 players. Clearly, there is a massive difference in the monetary value the athletes receive through scholarships in comparison to the amount they can receive in an open market.

**Olympic Method**

Another possible payment method to consider for these athletes follows after the method currently used by The Olympics. The Olympic model of payment is very simple. The Olympic Games does not pay a salary to competing athletes for their participation. Some of the athletes who compete in The Olympics today are professionals, so they receive salaries from the organizations that employ them full time, such as the NBA or the NHL. However, The International Olympic Committee (IOC) and the nations the athletes represent are not required to compensate them directly. Rather, all compensation comes in the form of endorsements and other deals made with the athletes by third party institutions and corporations such as Nike, Adidas, Under Armour, and any other corporations who choose to endorse these athletes. For example, consider Jamaica’s Usain Bolt, who is widely considered one of the greatest Olympians of all time. According to Forbes, in the year 2016-2017 (year ending 6/1/2017) Bolt earned approximately $34.2 million in total compensation. This came from various sources, but the majority came strictly from his numerous endorsement deals. Forbes noted that only $2.5 million of his compensation came from race fees and other appearances at various track events (Badenhausen 2016). This clearly shows the IOC has found a way for athletes to receive
compensation comparable to their fair market value, without incurring significant expense to itself.

Therefore, in the same vein as the IOC does, the NCAA can adjust its regulation to allow third party corporations to sign college athletes to endorsement deals as they see fit. Instead of placing all the pressure on the NCAA and the individual universities to pay revenue-generating athletes, this shifts the entirety of the burden to corporations who already have business models in place to handle these transactions.

It is not overly challenging to adapt this model to fit more effectively within the scheme of intercollegiate athletes. First, the NCAA and its member universities is still be responsible for compensating all athletes in the current form of the scholarships they each receive. Furthermore, pertaining to the O’Bannon case, the NCAA also still must pay all full scholarship athletes the court mandated additional $5,000 per year for full cost of attendance. These first two stipulations of the model require no current adjustment by the NCAA to its listed rules and policies.

The next step to implementing this model requires the NCAA to permit all athletes to receive endorsements and compensation from external, independent sources. The most significant source of this compensation comes from endorsements each athlete receives from corporations who wish to have the athlete represent their brand. Next, the NCAA needs to adjust its code to allow athletes to receive payment from all other uses of their images and likenesses. Included in this category are proceeds from jersey sales, autograph signings, NCAA video game revenues, and appearances at company-sponsored events. Once the NCAA makes these adjustments, the NCAA can easily implement this payment model with minimal financial impact on itself, and significant benefit to the athletes. It is also important to note that the stipulations in
this method apply to all athletes, not just the ones that compete on revenue-generating teams. Corporations have the liberty to endorse any athlete they see fit, so this includes all male and female athletes on nonrevenue generating teams.

**Hybrid Method**

The third model is somewhat of a combination of the first two, with modifications designed to increase the practicability of executing such a model. This hybrid model is broken down into two main parts, each of which is explained individually for clarity. The scholarship allotments the NCAA permits under current rules remain unchanged, and the components of this proposed method supplement these. To illustrate this method in practice, I use the football programs of the Big Ten Conference. The first element of this compensation method is a hard salary cap mandated by each conference individually. The second piece includes the principles of The Olympic method.

The first element of this method comes in the form of a modified salary cap based on each athlete’s individual value to the team. This value of each athlete is determined through the recruiting process by the coaches and other recruiting personnel by weighing the cost/benefit of acquiring each athlete. The coaches and recruiting personnel assess this value while considering the salary cap implications of signing each player. A salary cap is the maximum amount of money a team is allowed to pay its players in aggregate. When it comes to salary caps, there are two different forms: soft cap and hard cap. A soft cap is a type of salary cap that allows various exceptions that permit teams to exceed the salary cap when paying their players. On the other hand, a true hard cap is a type of salary cap where teams cannot exceed the maximum allowable
payment to players under any circumstances. For this method, teams must adhere to a true hard cap to in the payment process. Based on the precedent set by current payment methods of professional sports organizations such as the NFL and NHL, hard salary caps, although somewhat compensation limiting in nature, are not considered a violation of antitrust laws.

I derive the monetary amount of the hard salary cap to be set for football programs in the Big Ten solely from revenues each football program generates on its own, excluding any NCAA and Big Ten allocations of revenues to football. This salary cap amount needs to be carefully calculated to insure that it does not put any one university at a severe disadvantage in comparison to other universities in the conference. As such, the salary cap for Big Ten football is set at a dollar amount that is 25% of the total revenue generated by the lowest grossing university. For the fiscal year 2015-2016, Purdue University was the university with the lowest total revenue attributable to football. Purdue generated $18.7 million in revenue for the year in question (Pianovich 2017). By taking 25% of Purdue’s football revenue to set the salary cap I arrive at a salary cap of $4,675,000 per year starting in the fiscal year 2016-2017. To avoid adjusting this salary cap every year to account for 25% of the revenue generated by the lowest grossing school, I also include a mandatory four-year period between adjustments. I derive this four-year period from the average life of a college football player, assuming each player graduates in the standard four-year period of the undergraduate college curriculum. This four-year period ignores players who enter the NFL draft before graduation and players who redshirt to participate for five seasons. Thus, every 4 years the salary cap for the Big Ten is recalculated as 25% of the total revenue of the lowest grossing member institution. Each Big Ten football program must adhere to the $4,675,000 hard salary cap through the 2019-2020 fiscal year, at which point readjustment occurs.
At this point, the coaches and other recruiting personnel are tasked with using this salary cap amount to the best of their ability to maximize the value of each player, while fielding a full team of 85 players, with one more condition. The last condition is that each player on the roster must receive a minimum salary of $25,000 per year for his intrinsic value as a member of the team. Assuming a team carries the 85 players allowed on the roster, this means that $2,125,000 of this salary cap is locked up in minimum compensation requirements. Therefore, each university has $2,550,000 per year to allocate among its players as it sees fit to maximize their competitive position within the conference.

In Division I college football, there are 10 Football Bowl Subdivision (FBS) conferences, and there are 14 Football Championship Subdivision (FCS) conferences (ESPN 2017). Each conference uses the same method demonstrated above to arrive at its own salary cap. As this is a true hard salary cap, the rules of this method allow no team under any circumstances whatsoever to exceed the salary cap in any given year.

By generating a salary cap using this method, its monetary value varies significantly across the different conferences, which may seem to cause a competitive imbalance that puts the programs of smaller institutions at a disadvantage too great to overcome. However, this is where the second element of this compensation model factors in to alleviate this problem. To eliminate some of the pressure on the smaller conferences, this model also institutes The Olympic model of compensation alongside the conference hard salary cap. The characteristics of The Olympic model previously discussed are the same. It allows players to receive endorsement deals, and allows them to sign autographs and make appearances. This way, in addition to the salary each player will receive from the university, he has the ability capitalize further on his individual
value by signing endorsement deals that are not subject to the salary cap restrictions of the conference.
Chapter 4

Results

I will evaluate the results of the methods based on a variety of factors to arrive at a conclusion to determine which payment method is the most suitable. I consider factors such as fairness, sustainability, feasibility, and the possible effect on the NCAA and the universities as a whole. I also consider how the theoretical implementation all of these methods affects each of the stakeholders involved. The chart below depicts how each major stakeholder is likely to be affected by each method, if affected at all, in comparison to the current method the NCAA currently uses for compensation. The stakeholders are rated based on what degree positively or negatively they are affected, ranging from the most positive (+ + +) to the most negative (− − −), or (N/A) if they are indifferent in regards to the implementation of a given method. The reasons behind these ratings are explained throughout the results section.
Table 3: Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders:</th>
<th>Current Method</th>
<th>Fair Market Method</th>
<th>Olympic Method</th>
<th>Hybrid Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large School Revenue Generating Athletes</td>
<td>− − −</td>
<td>+ + +</td>
<td>+</td>
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</tr>
<tr>
<td>Small School Revenue Generating Athletes</td>
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<td>+ ++</td>
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<tr>
<td>Large School Nonrevenue Generating Athletes</td>
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</tr>
<tr>
<td>Small School Nonrevenue Generating Athletes</td>
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<tr>
<td>Large School Revenue Generating Coaches</td>
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<tr>
<td>Small School Revenue Generating Coaches</td>
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<tr>
<td>Large School Nonrevenue Generating Coaches</td>
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<tr>
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<td>− − −</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>FBS Member Conferences</td>
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<td>− −</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>FCS Member Conferences</td>
<td>+</td>
<td>− − −</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Third Party Organizations</td>
<td>−</td>
<td>N/A</td>
<td>+</td>
<td>++</td>
</tr>
</tbody>
</table>

Fair Market Revenue Sharing Method

The results and implications of implementing each one of these methods vary significantly. While the idea of adopting a revenue sharing method in college football based on that of the NFL may seem appropriate on the surface, there are many other considerations to
account for. The main advantage of adopting this model is that the athletes are receiving a level of compensation that is proportional to their fair market value. This method eliminates the substantial discrepancy between the value of the scholarships offered and the value the athletes can receive in an open market.

However, there are several issues with this method, both financial issues and issues surrounding the nonrevenue generating sports sponsored the universities. Based on the example of Penn State for the fiscal year 2015-2016, the university attributed $97,766,978 of athletic revenue to football, and allocated approximately $45.5 million to the players. The football program itself generated net income of $39,879,247, but the athletic department itself only generated a profit of $2,898,927. This difference of almost $37 million in net income results because the athletic department as a whole has to fund 31 sports programs, the large majority of which operate at a net loss each year. If revenue-generating programs adopt the same revenue sharing method as professional sports, the universities have no choice but to shut down many nonrevenue-generating programs to be able to fund the ones that do generate revenue. Thus, this payment method fails to consider the intrinsic value of sponsoring a variety of athletic programs. Ignoring this has a negative impact on intercollegiate athletics as a whole, which is why the viability of this compensation method is lacking.

Furthermore, this method causes a significant shift in the competitive makeup of the revenue generating sports as a whole, resulting in smaller universities no longer being able to compete. While this factor does not apply to all methods of payment, it must be considered when debating whether to pay the athletes at fair market value. Significant portions of the revenue Penn State football generates result from games with smaller schools, such as Akron and Georgia State. Many of these schools can no longer compete when faced with a compensation
method strictly based on fair market value. This results in decreased overall revenues for the larger programs such as Penn State who rely on these smaller programs to fill seats in Beaver Stadium on any given Saturday.

**Olympic Method**

The issues surrounding the implementation of The Olympic model are drastically different from the ones surrounding the fair market method. Use of the Olympic model eliminates or significantly minimizes many of the disadvantages of the fair market value method. First, from the perspective of the NCAA, its conferences, and its member universities, The Olympic model is quite easy to implement. The compensation under a pure Olympic model comes at no cost to the NCAA and its member universities because it all results from contracts the players sign with third party individuals and organizations. Because of this, universities still can still sufficiently fund the nonrevenue generating sports they sponsor. In addition, marketable athletes can receive compensation based on their value as seen by third party organizations. Furthermore, The Olympic model allows athletes to receive compensation from a variety of sources. Marketable athletes can sign endorsement deals with multiple organizations, allowing them to receive the significant compensation to which many of them are entitled. They may also receive payments for making appearances at various events, or signing autographs for auction on the open market. Another asset of The Olympic model lies in the fact that athletes in nonrevenue generating sports who on their own are not considered valuable on the open market also have the ability to receive compensation. If third party organizations deem that an athlete in a sport that
does not generate revenue has value as a potential client, they can sign this particular athlete, helping him/her capitalize on his/her market value as an individual.

However, there are still some drawbacks of implementing a pure Olympic model. For example, some athletes on revenue generating teams have their intrinsic value to the team’s success neglected. Third party organizations endorse athletes based on their value to the organization, and not necessarily based on their value to their team. As such, many players on revenue generating teams do not receive any compensation, even though they contribute to revenue generation. For example, a football team rosters 85 athletes, but not each one on his own is marketable from an endorsement perspective. Going back to the example of Penn State football, each player by virtue of participating as a team member has a certain intrinsic value in contributing to the over $97 million in revenue each year. In a purely Olympic model, many players have this intrinsic value neglected, and are be denied compensation that they receive in a revenue sharing method.

**Hybrid Method**

When analyzing third method, I must consider a combination of the factors of the first two methods. By using a hybrid method of compensation, I find that many of the advantages of implementation alleviate a majority of the disadvantages associated with implementing either method on its own. The Olympic component allows players to realize all the advantages previously discussed under the hybrid method. Players can receive significant levels of compensation from third party organizations, and can receive compensation from a variety of different sources. Furthermore, athletes in nonrevenue generating sports also receive the
opportunity capitalize on their marketability on an individual basis. The second component of
this method, the conference based salary cap with a fixed minimum salary bolsters the viability
of this method even further. Because there is a fixed minimum salary for each individual athlete
on revenue-generating programs, athletes whose intrinsic value may be neglected by the pure
Olympic method can now be recognized. Some players may be discontent with way the coaches
allocate the salary cap amount among the team, because certain players will be paid more than
others at the coaches’ discretion. However, if they are discontent with the salary they receive
from a particular school, they have the freedom to look elsewhere to other schools who will find
them more valuable, therefore increasing the compensation they receive. Furthermore, in the
current method the NCAA uses, athletes are paid nothing. In comparison to this alternative, even
a minimum salary of $25,000 is much more favorable.

When analyzing this method as a whole, another advantage of its use is its relative ease
of implementation. Instituting a pure fair market method of compensation that is the
responsibility of only the NCAA, its conferences, and its member universities has substantial
adverse effects on nonrevenue generating programs. This makes its potential use challenging to
sustain. Creating a conference-by-conference salary cap as a percentage of revenue from the
member school with the lowest revenue generation limits the financial liability for the
universities, and still holds them accountable for compensation the athletes. There is still a
financial expense to the universities under the hybrid method, but it is significantly less than
under a pure fair market method.

One of the possible drawbacks of this model is that because of the nature of its
calculation, the monetary value of the hard salary cap varies across different conferences. The
revenue generation of the football programs in smaller conferences is considerably lower than
that of the Power 5 conferences. As a result, there is still potential for the overall competitive
landscape of college football to shift in a manner that makes it exceedingly difficult for these
smaller conference programs to remain competitive. While this concern is valid regarding the
salary cap itself, it no longer remains an issue with this model because of the addition of The
Olympic system of compensation. High profile athletes who have marketable value retain that
value to the third party organizations endorsing them regardless of the conference in which they
compete. The goal of the corporations signing these athletes to endorsement deals is to expand
and diversify their share of the market by using these athletes’ images and likenesses to improve
brand recognition. Because of this, the two aspects of this compensation method work
cohesively to compensate the most talented athletes fairly, as well as spread this talent to all
different areas of the country. To illustrate this, consider the top five running back recruits for
football in any given year. If all five of these recruits attend Alabama because it is such a strong
football university, some of them will never get playing time and will ride the bench for four
years. For the players who are relegated to a bench role, they will not be marketable to the third
party organizations because they will receive no playing time. By implementing The Olympic
method, it will cause these would be bench players to look elsewhere in the recruiting process.
They will consider smaller schools, where their skills will be more valuable and marketable
because of the prolific role they will play at these other schools. By extension, this will result in
dividing the top talent amongst the conferences more equally because the corporations use these
endorsements to expand their geographic profile.
Chapter 5

Conclusion

In developing three potential payment methods for college athletes, it is evident that each has significant and widespread costs and benefits that have a lasting effect the overall landscape of intercollegiate athletics. After conducting a thorough analysis of each method, and considering various qualitative and quantitative factors relating to each’s implementation, I conclude that the most practical method to use in practice is the hybrid method. The hybrid method achieves the highest level of success in compensating the athletes fairly, and holds the universities responsible for the welfare of the athletes. The hard salary cap and fixed minimum payment for athletes on revenue generating teams achieves two goals. It creates a system in which each athlete capitalizes on the success of the program, and limits the liability of the universities so they can continue to sponsor nonrevenue-generating programs. The addition of The Olympic method gives the athletes the opportunity to receive a significant level of compensation, and benefits the third party organizations endorsing them by expanding their brand exposure and recognition. I must note that compensating these athletes could cause some shift in the competitive landscape of college athletics. However, this shift is not momentous enough in and of itself to continue prohibiting the athletes from receiving any compensation in excess of the scholarships they currently receive. If the NCAA executes this method in practice, all parties involved benefit. Over time, the market for college athletics will grow exponentially.
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EDUCATION

Pennsylvania State University                                                                      University Park, PA
Schreyer Honors College & Smeal College of Business                                   Class of 2017 (Fall)
Major: B.S. Finance and B.S. Accounting
Masters: M.S. Accounting
Thesis Advisor: Christoph Hinkelmann
Honors Advisor: Brian Davis

RELEVANT EXPERIENCE

KPMG, LLP                                                                                          Philadelphia, PA
Audit Intern                                                     Summer 2017
• Worked in a team based environment to complete various audit-related tasks
• Demonstrated proficiency in accounting standards to produce well-structured and effective audit documentation
• Contributed to the integrity and transparency of financial information, while demonstrating quality service and a continuous learning mindset

Discover Summer Leadership Program          Summer 2016
• Developed leadership skills and gained new perspective on public accounting through networking with other student leaders and KPMG professionals
• Participated in team building activities and made contact with firm leadership
• Gained exposure to firm clients through job shadowing experience

Fast Forward National Leadership Program      Summer 2016
• Selected as one of 120 future interns from a pool of 30,000 applicants nationwide to participate in the KPMG National Leadership Program
• Met and interacted with top level intern candidates, as well as high level firm management professionals from across the country
• Received unique and personalized opportunities to network with national firm leadership in a highly individualized setting

Pennsylvania State University Men’s Varsity Tennis Team                     University Park, PA
Varsity Letter Winner, Senior Captain                                                         August 2013-May 2017
• Engaged in the ongoing required conditioning, training, practice, travel and match play at both team and individual levels during both the fall and spring semester, as well as summer while maintaining a full academic workload
• Competed in match play, as well as prestigious tournaments, including the 2014 NCAA Championships, 2015 ITA National Indoor Championships, and 2016 NCAA Championships
• Helped the team earn an NCAA school record ranking of #16 in the Spring of the 2014 and 2015 seasons
• As Team Captain during the 2016-2017 season organized off-season workouts in the form of captain’s practices, set up various community service opportunities for the team,
motivated and mentored younger teammates, and liaised between coaches and teammates throughout the season.

LEADERSHIP EXPERIENCE

Legacy Youth Tennis and Education Center
Coach, Mentor  
Summer 2014-2016

- Coached nationally ranked juniors, emphasizing strategic, technical and fitness related aspects of tennis
- Mentored, coached, and tutored a separate group of young, underprivileged children who train and study at the center
- Organized on and off court activities and drills for two different groups of juniors within the program

VOLUNTEER SERVICE/INVOLVEMENT

LaSalle Academy Tutoring
Tutor, Mentor  
January 2010-April 2013

- Made bimonthly visits to LaSalle Academy in Philadelphia to assist young students with their schoolwork and provide an outlet for them to discuss some of the challenges that they were facing

Penn State THON
Volunteer  
Winter 2016

- Helped raise money and donate goods through Student Athlete Advisory Board (SAAB)
- Participated and performed on stage during “Athlete Hour”

Beta Gamma Sigma
Inductee  
Fall 2015-Present

- Business honors society comprised of the top 5-7% of business students
- Access to many experienced and successful professionals inducted into the organization in prior years

GRANTS RECEIVED

Penn State University
- Schreyer Academic Excellence Scholar Grant  
  Fall 2013-Spring 2017
- Provost Award: University Park Four Years  
  Fall 2013-Spring 2017
- Accounting Department: Koehler Accounting Scholarship  
  Fall 2017

SKILLS

- Proficient with Microsoft Office programs such as PowerPoint, Word, and Excel