

## **ISSUE NINE: BUDGET PRIORITIES AND DUES STRUCTURE**

### Introduction

For any organization, the embodiment of its philosophy and mission is the allocation of its resources. Efforts to secure adequate resources to further its mission, to ensure that those resources are meeting the membership's needs and desires, and to provide substantive review and oversight of those expenditures are central to the mission of the NCAA and Division III. It is however, critical that the membership have a clear understanding of the revenue stream, the process by which resources are acquired, budgeted, and expended, and the opportunity to provide direction on significant budget initiatives.

### Background

Approximately 90% of the operating budget of the NCAA comes directly or indirectly from the television rights and marketing fees (primarily the broadcast agreement with CBS related to Division I Men's Basketball Championship). The current broadcast agreement will expire in 2013, with the final three years (beginning in 2010) at the NCAA's option. It is impossible to predict what the terms of the future contract will look like and what revenue they will generate.

The division's current revenue allocations are based on Association-wide agreements and related legislation adopted in the mid 1990s. The NCAA Constitution guarantees that Division III annually receives a portion of the Association's total operating budget in order to conduct its programs and services. That figure, 3.18%, represented the amount of funding allocated to the Division III championship program at the time the current federated governance structure was established.

The annual operating budget for the division was approximately \$20 million in 2007-08. Revenues have increased annually at approximately 7% during the current broadcast agreement.

The annual Division III operating budget is primarily directed toward the conduct of championships and the provision of non-championships programming. For the last several years the Presidents and Management Councils have endeavored to achieve approximately a 75%/25% distribution of those funds, with championships receiving the larger share.

It is important to understand that the national office operations (specific to Division III) are, largely, not derived from the 3.18% allocation. Rather, with some limited exceptions, governance and committee structure, membership services, and other national office operations are provided for through a separate operating budget line. This was an additional feature of the mid 90s federation agreement—a legislative guarantee that Association-wide programs and services (including national office support) would be retained at a level comparable to what existed at that time, while additional programs and services would be charged to the division. In 2007-08, approximately \$1,150,000 of national office funds were allocated for Division III Governance and National Office staff, and for Division III Committee operations.

As the membership in the division has grown, maintaining a high level of service to a large and diverse membership has proved challenging. Additions to the membership roll continue to stress the abilities of the staff to provide the high level of service that the membership has come to expect. Further, limited resources have the potential to constrain new initiatives and limit the ability of the division to respond to membership needs. A thorough review of revenue sources with an eye to maximizing service to the membership is clearly warranted.

The amount and significance of membership dues is not well understood within the Association and Division III. Less than 1% of the Association's operating budget comes from membership dues. For the same year, the dues from Division III members, including conferences, generated approximately \$422,000. Membership dues are \$900 for institutions and \$450 for conferences. These dues have not increased since 1985. Based on the rate of inflation, \$900 in 1985 is comparable to \$1,700 in 2007. For comparison purposes, NAIA members pay annual dues of \$4,900 plus an additional \$250 to \$400 in regional dues. NAIA Conferences pay \$3,200 in dues. Procedurally, dues received by the NCAA are not retained by their respective divisions. Rather they are a component, albeit a small one, of the total revenue generated by the Association.

The return on that investment is significant. The annual value of membership for each Division III member is estimated between \$42,000 and \$45,000.

#### Division III Philosophical Principles

The final paragraph of the Division III philosophy statement includes the basis for the services that the NCAA provides to the membership. In part it says that the role of the NCAA is "to assist its members in developing the basis for consistent, equitable competition." Beyond that, the basic underpinning of the Association is to ensure that participation in athletics is consistent with, and enhances where possible, the educational experience of the student-athlete.

Toward that end, the Association and Division III strive to provide high quality service to their members, emphasizing the dual goals of competitive and educational opportunity. The philosophy statement emphasizes the commitment of Division III to, "Place special importance on the impact of athletics on the participants." That commitment extends to the full range of services that the NCAA provides to its membership. The division is cognizant of the need to develop revenues that will permit it to fulfill that commitment.

The recent merger of the Strategic Planning and Budget Committees into the Committee on Strategic Planning and Finance illustrates an understanding of the need to more closely integrate those functions. Allocation of resources without a solid planning process is a breach of fiduciary responsibility and an abrogation of the commitment that the Association makes to its members. A thorough, open planning process and a transparent budgeting and review process are more than just good practice. They are a promise to uphold the trust that the members place in the Association.

### Identification of options

As with any organization that has well established and quite high, standards for service to its members, the over-riding concern of the NCAA and in particular the Division III leadership is the maintenance of those high levels of service. In order to continue to be a responsive, innovative organization, the NCAA must continue to explore new means of generating revenue, and Division III, as the center of much growth in the Association, should be particularly open to exploring opportunities to fund programs and services for a growing membership.

### Dues increase

Given the many years since dues have been increased, it seems appropriate to discuss the possibility of an increase in institutional membership dues. In order to generate enough revenue to maintain and enhance programs and services, an increase of dues to approximately \$2,000 should be explored. Such an increase would essentially return the buying power of membership dues to the level they were at when they were set at \$900. Further, Executive Committee agreement should be sought that would permit any funds generated by an increase in Division III dues to be retained by Division III and used exclusively for Division III programs and services. Coincident with that agreement should be the understanding that current support for Division III activities would not be adversely impacted.

With such an agreement, a commitment to detailed planning and oversight regarding the use of those funds would follow, so that the membership would gain a better understanding of the budget process. Potential uses for additional funding include the following:

- New programming that emphasizes the unique nature of Division III.
- Opportunities for greater presidential involvement in the governance of athletics at the local, conference and national levels.
- Greater opportunities for the voice of Division III student-athletes to be heard by subsidizing more student-athlete involvement at the local, conference and national levels.
- Initiatives that help athletics become a more integral part of student life.
- Greater enforcement of Division III rules.
- Enhanced safety of Division III student-athletes through greater training of supervising coaches and athletics contest staff.
- Development and implementation of a comprehensive marketing and communications plan for the division.

### Association funding

Periodically, it is suggested that Division III pursue an increase in the 3.18 percent divisional allocation. Approval by two-thirds vote of the entire membership would be necessary to amend the NCAA Constitution in this way. This seems extremely unlikely, and perhaps counter-productive. With fundamental change to the Division III governance structure “off the table,” the Executive Committee has shown no support to reconsider current funding allocations. Current and future funding challenges in higher education, especially in Division I, suggest the exploration of this issue would not be fruitful.

### Summary of Membership Feedback

At each of the town hall meetings, the participants were quite clear in their satisfaction with the high level of service that is provided by the national office staff, and that the institutional investment of funds in the form of dues offered substantial returns. There was also a general recognition that the \$900/\$450 dues rates was a bargain, and the fact that dues had not increased in more than 25 years seemed to surprise many. A preponderance of the comments suggests that an increase in dues would be appropriate. There were some caveats expressed however, that provide valuable guidance on the conditions that should be in place to ensure that additional funds raised continue to meet identified needs of the membership. Specifically, the idea that a dues increase be retained in the division was central to acceptance of any increase. Further, it was clear that a needs analysis should be the first step toward any consideration of revenue enhancement. In other words the division shouldn't raise dues and then find a way to spend the additional funds; rather, it should identify unmet needs, and then determine appropriate levels of divisional revenues to meet those needs.

Additional commentary from the town hall meetings focused in part on procedural issues related to achieving an increase in dues, which would entail a vote of the divisional membership following the standard procedures for legislation. There were also questions raised about the necessity to raise dues while the division has a fairly healthy surplus. While the surplus is quite substantial, there are significant uncertainties, both short-term and long-term, that suggest that an approach that enhances revenues while allowing the freedom to draw on the surplus as needed would be prudent. By maintaining a healthy budget surplus, the division will be well placed to ease any transitions associated with the new contract.

One other significant point raised at the town hall meetings focused on the recent increase in the use of conference offices as the focal point for certain administrative tasks, such as the conference grants program. At least one speaker suggested that there are limits to that approach, and offered that support from the national office is appropriate and necessary and should be maintained. While the division has seen a significant rise in the number of full-time commissioners and their operations have increasingly been professionalized, there is no doubt that the national office is and will continue to be central to the administration of the division. While the many initiatives that have drawn on the expertise of the conference offices have, by

and large, been successful, the conferences are not surrogates for the national office. An understanding of the conferences' capabilities, and their limits, will continue to inform decisions and help to achieve an appropriate balance of responsibilities.

Recommendations/initiatives for further consideration

The Strategic Planning and Finance Committee, in conjunction with the Presidents and Management Councils and the national office staff, will continue efforts to identify the needs of the membership and develop strategies to meet those needs. Given the uncertainty regarding the Association's future broadcasting agreements and revenue streams, the division should establish greater control over its own financial future and direction.

A component of that ongoing effort should be the development of enhanced revenue streams. A direct increase in the Division III membership dues would be a relatively straight-forward way to supplement the Division III budget. It would also serve as an endorsement of the high level of service provided to Division III members, and a commitment by the membership to provide the resources to maintain and enhance that level of service. Among the other possibilities that warrant further analysis are conference certification fees, to ensure that adequate resources are available to help ensure that new conferences, which have enhanced expectations as they become intermediaries between the national office and the member institutions, are well prepared to provide the services they are asked to offer. Additional engagement of national office staff with newer members to complete the transition from provisional member to full member status may be identified as a priority. A declining scale of dues for newer members, from the provisional status assessment toward the eventual regular dues may help to support such programming.

Finally, with the uncertainty related to the Association's long-term revenue streams, Division III should maintain its current reserve (approximately \$11 million) to ensure the maintenance of key programs and services.