

Report of the Chancellor's Committee on Intercollegiate Athletics

July 6th, 2010

Members:

William Ausfahl, Margaret Conkey, Kathleen Correia, Fiona Doyle, Robert Haas, Christopher Kutz, Calvin Moore & Robert O'Donnell

Introduction:

The Chancellor has charged this Council, constituted of four members of the faculty, chosen by virtue of their roles in the Faculty Senate (Margaret Conkey, Fiona Doyle, Christopher Kutz, and Calvin Moore) and four alumni (William Ausfahl, Kathleen Correia, Robert Haas, Robert O'Donnell), to advise on the following aspects of Berkeley's Intercollegiate Athletics program:

- (1) Understand the recent and current financial and competitive state of our Intercollegiate Athletics program.
- (2) Assess alternative approaches to putting our IA program on a financially sustainable path. Financial sustainability does not equate to complete self-sufficiency in the foreseeable future, but it does require a model whereby the IA department will consistently generate revenues (including campus support) that meet or exceed its expenses.
- (3) Assess possible impacts of changes in the scope of IA on philanthropy to our academic programs.
- (4) With respect to the most promising alternatives, the Council will develop a short list for [the Chancellor] to consider, including the pros and cons of each.

Accordingly, the Council has met on seven occasions, compiled a significant amount of data on the financial performance of IA, and spent extensive time interviewing Athletic Director Sandy Barbour, IA CFO Laura Hazlett, VC for University Relations Scott Bidy, as well as VC Frank Yeary and former VC for Business Operations Nathan Brostrom. Several of the faculty members further brought insights gleaned from the concurrent Senate Task Force on Intercollegiate Athletics, and several of the alumni members brought their experiences and wisdom gained from the business world, membership in the Athletic Director's Advisory Council, as well as their involvement in a large range of University development efforts.

The centerpiece of our charge was to develop advice on how IA might achieve what the Chancellor's charge calls "sustainability." We understand sustainability of the athletics enterprise as follows: the IA program is sustainable if and only if it accords with Berkeley's fundamental commitment to comprehensive excellence, and its net costs to campus are commensurate not only with its benefits, but also with the other demands on campus resources, keeping in mind the especially challenging financial environment in which the university must operate for the immediate and likely enduring future. In turn,

we understand the value of comprehensive excellence in relation to IA to require a program that excels uniformly across the three dimensions of athletic, academic, and fiscal performance, as well as across as broad a range of forms of sport that the resource base can support.

Our charge therefore rules out two extremes on a spectrum of campus support for intercollegiate athletics: fielding the absolute minimum number of teams qualifying Berkeley to compete in the NCAA and Pac 10 (16 teams, including football, men's basketball, and women's volleyball); and expansion to as broad a range as possible of sports (for example, the Stanford model of 35 sports). The former fails to respect the value of the IA program to campus while the latter is not realistic, given our resources. As we elaborate below, the Council agrees that a robust IA program is compatible with the values of an elite American research university, that it adds a valuable dimension to students' academic and social experiences, and that its part of Berkeley's specific traditions and histories is worth preserving. While we recognize that different teams have different levels of resources, we follow the 1991 Smelser Report in seeing an implication of comprehensive excellence as entailing that all teams are held to the same standard of academic and athletic performance.

Under this ideal, we believe that IA's contributions to the campus in general consist in the following: Intercollegiate Athletics adds to campus "spirit" and cohesion -- a necessity in a large urban campus environment. It serves as a unique and irreplaceable point of contact with the University's alumni and friends and facilitates cultivation for philanthropic purposes. It thereby promotes loyalty and school spirit on the part of selected donors. (We note that roughly half of the 53 largest individual donors to the campus support IA as a part of their gifts, and that many donors to IA are even more generous in their gifts to academics.) It provides opportunities for direct participation in high-level athletic competitions (and all the skills and accomplishments that such competition requires) for approximately 800 student athletes, and adds to the college experience of students who are involved in activities connected to IA (the Cal Band, Rally Committee and other spirit groups, student managers, students employed by IA, etc.). Finally, it serves as the most frequent "window on the University," and is the basis for a significant amount of free advertising, through television and radio coverage of our teams in competition.

If the benefits of a vigorous IA program are substantial although difficult to fully monetize, so too are the costs. The simplest way to understand the costs of the athletic program is to net all expenditures in a given year by IA, including the full costs of scholarships and academic and medical support, against all "earned revenues" -- that is, against ticket sales, media revenues, royalties, and direct income from camps and concessions. The difference between the two, which we call the "delta," has historically been made up by campus support consisting in non-state funds directed by the Chancellor, and Registration fee funds.

Under this simple definition, the gap between IA's costs and earned revenues, for FY 2004-FY 2009, has ranged from \$7M to \$14M; eliminating the extremes provides a range

of \$10-\$13M. The deltas are estimated for FY2010 and 2011 to run between \$13 and \$14M. (We note that this way of measuring the delta accords with the Knight Commission's approach.¹)

There are, however, different ways to approach further adjustment of the delta. The most significant adjustment would be to subtract from the costs of the program some or all of the value of athletic scholarships (currently \$10M annually), either on the view that such funds are a mere internal transfer, or on the grounds that at least some of the funds represent expenses the institution would have incurred anyway to support those students were they enrolled as non-athletes. The campus Financial Aid office awards an average of \$5800 to about 56% of undergraduates. Applying this factor to the 800 students in IA would result in an offset of \$2.6M for 2010, reducing the anticipated delta to \$11.5M; and it would reduce the overall range to \$7.5M-\$10.5M. The more radical adjustment of simply subtracting the total amount of financial aid would largely or entirely clear the delta.² Some on the Council feel that such an approach has abundant conceptual validity. Others feel that it would mask one of the most significant components of an IA program. Rather than advocate one approach over another, the Council unanimously recommends that the campus adopts a transparent and unambiguous definition of "delta" that can be easily calculated, and uses this definition henceforth in all financial reports, so that any interested parties can easily track the progress being made towards reducing delta.

A further important adjustment might also be made to reflect the observation that some of the significant unanticipated shortfalls in the last two years represent drops in revenue stemming from the worst economic conditions in decades. Subtracting the \$1-2M in volatile revenues would "normalize" the delta further. An adjustment in the other direction would be to impute the \$800k cost of academic support through the Athletics Study Center, paid by central campus, to the IA budget.

Thus, under the simple method, deltas have and are predicted to range from \$7M-\$14M, while under the adjustments noted above, the delta may be better stated as in a range, roughly, from \$5-9M annually.

There is yet one more significant consideration: the indirect contribution IA makes to philanthropy supporting the core academic mission. The Council has had extensive discussions with Vice Chancellor for University Relations Scott Bidy and many of its members have extensive experience in development for Berkeley. Vice Chancellor Bidy, as well as the Chancellor, is certain that IA directly assists academic fundraising through a number of the factors mentioned above: it creates a loyal cadre of alumni who give generously to academic and athletics; it keeps alumni connected to the life and spirit of the university, and thus helps to build a pool of future donors; and it reflects a way in which the institution as a whole can meet a range of the interests of donors, to the benefit

¹ Knight Commission on Intercollegiate Athletics, *Restoring the Balance: Dollars, Values, and the Future of College Sports*, June 17, 2010: <http://www.knightcommission.org/>.

² An alternative correction would be to subtract from IA's costs the portion of each scholarship (33%) that is immediately returned to the central campus financial aid fund. That is, in 2010 more than \$3M in the scholarships IA provides represents an internal transfer within the books of Financial Aid.

of all. There is no good way to specify the marginal contribution IA makes to academic philanthropy, although Vice Chancellor Biddy estimates that a significantly degraded IA program could lead to losses, in academic philanthropy, of as much as 10% (\$25M) of individual giving annually for a significant time. It is also worth noting that 25 of the top 53 lifetime donors to campus have given substantially to IA, and 22 of these donors have given much more to academics than to athletics.

We recognize that possible changes in the Pac 10 conference, and the potential synergies that may emerge in a more lucrative media contract, could make substantial differences to the net costs of our IA program.³ At the least, we can anticipate downward pressure on the funding gap from an expanded conference, enhanced ticket sales as well as immediate (\$2.4M) estimated cuts to administrative expenses. However, notwithstanding the possibility of substantial new revenues beginning in 2013, we note that the general upward pressure on costs, the scope of the program, and the increased operating costs of the retrofitted and improved stadium (estimated at an additional \$2.4M) will result in a significant short- and probably intermediate gap between costs and revenues. Indeed, an expanded Pac 10 could lead to increases in travel costs, as well as further fuel for the arms race, discussed below; the rumored division into North and South groups could also make ticket revenues more volatile.

The dramatic increases in IA's budget must also be viewed in the context of the severe reductions of campus expenditures to its core academic mission, with resources for teaching and research greatly stripped away over the last several years. During the same period that overall expenses of IA have increased by 61%, despite significant tuition and fee increases borne by students, the overall state educational appropriation has declined from \$20,000 per student FTE to \$18,717, a 6.4% decrease.⁴ In the meantime steep increases in the cost of employee benefits, utilities, supplies, etc. have exacerbated the decline in revenues. Despite heroic efforts to maintain the excellence of our instructional programs, the faculty to student ratio has declined, class sizes have increased, sections have been eliminated, and in some cases the numbers of classes or discussions per week have been reduced. In the 2009-10 academic years most research and teaching units have had to find ways to meet cuts of 20% and more (excluding faculty salaries) in budgets that were already lean. These units are not allowed to run deficits. Most units have had to lay off staff, thereby increasing the burden on the remaining staff and faculty, and have reduced levels of support (not least, 19 departments in Letters & Science eliminated telephone service from all faculty offices). Mandated furloughs have pushed staff income closer to the poverty line, while cost of living increases remain virtually frozen. And the rest of campus has suffered physically, not only in garbage removal now reduced to a monthly program for many offices, but in real threats to the ability of the faculty, staff and students to learn and to work, such as the 63 chronic roof leaks, one gardener left to

³ As of the writing of this report, Colorado and Utah have announced that they will join the Pac 10, with some discussion of splitting the conference into North and South groups.

⁴ State educational appropriations exclude Indirect Cost Recovery (ICR) returned as Unrestricted General funds. Tuition and Fees is net of scholarships. Sources: Berkeley Overhead Allocations, 2000-01 – 2008-09 prepared by Budget Resource and Planning, Student FTE from UC Berkeley Registrar.

mow lawns for the entire campus, and antiquated laboratory facilities for which there are no funds for renovation.

There are a number of immediate causes for the large funding gap in IA. We have mentioned the obvious role of the Great Recession in depressing ticket sales and donations, and in causing a significant hike in tuition costs, reflecting a rise between 2004 and 2010 of \$4.6M in athletic scholarship costs. Historically, since Title IX was passed in 1972, Berkeley has effectively added 11 women's teams and not only met the "program expansion" mandate of the unfunded Federal law but now meets the "full accommodation" prong for compliance. (The last team added was women's lacrosse in 1998). At 29, Berkeley has the second largest number of teams of any public university in the country, and the second in the Pac 10, after Stanford.

The Council also sees the persistent and growing funding gap as arising from three structural factors, in addition to the local, situational and recession-induced shortfalls in revenues:

- (1) The lack of budgetary controls within IA, and the failure of IA to impose discipline on spending by teams and other operations.
- (2) The competitive spending race within the national system of intercollegiate athletics, which has driven up salaries, amenities standards, as well as team rosters. (This arms race is discussed in the important new report of the Knight Commission on Intercollegiate Athletics, *Restoring the Balance*.)
- (3) IA's failure to fully harvest its own potential basis of philanthropic support, and a concomitant lack of pressure on teams to become self-supporting.

A further substantial supporting condition is the poor quality of financial information systems in IA, and at Berkeley in general, thus hindering sound financial management practices. The net result of these pressures is a program in which costs are pushed out to central campus, and other costs are pushed down from central campus. Even though these cross-allocations have no overall net impact on the campus they confuse decision-making at all levels by delaying cost recognition. Too often, the costs become clear after the decisions have been made.

Members of the Council hold differing views about how to resolve the uncertainties in each of these factors, hence also differ in estimates of the "true cost" of IA. But we all agree on two points: IA faces a structural gap in its funding; and the level of campus funding necessary to fill that gap is larger than the campus should bear. Our assessment of this point reflects our sense of Berkeley's resources, unmet needs in funding its core mission, and our political environment. While this level of central funding is not unprecedented in NCAA sports, it puts Berkeley at the top of the Pac 10, and generally at the national high end of campus funding. It also contrasts with UCLA's steady level of athletics subvention at \$2.8M, reflecting a strong culture of fiscal discipline and performance. The cost to central campus is significant even relative to the campus's Instruction and Research expenditures of approximately \$500M annually, and the

trajectory is moving towards larger costs. We therefore conclude that on any definition of the delta, campus must take immediate and substantial steps to reduce the net costs of the IA program.

Taking into consideration the benefits of a strong IA program and the limited ability of the so-called Olympic sports to generate revenues, as well as the costs and context of the program, the Council believes that a normalized level of campus support of \$5M annually can be justified. Ideally, the level of campus support should be reduced further as the program becomes fully self-supporting.⁵ This level of support recognizes not only the intrinsic programmatic value of IA and the role of IA funding as an investment in campus philanthropy, but also reflects a significant fraction of the costs of the scholarships IA provides in the non-revenue sports. Given these overlapping justifications, we believe it to be a sustainable level of campus support. This amount is in one sense arbitrary, since it represents not a defined calculation, but a compromise among members with different views, accepted by all – and so may reflect a broader possible compromise among the different constituents of the campus community. We also recognize that it is impossible to achieve the \$5M goal immediately, and so recommend that a target date of FY2014 be set as a firm deadline for reducing total campus support.

We wish to emphasize that we believe Athletic Director Sandy Barbour has done an outstanding job in producing an environment of athletic success, as well as great progress and success in academic performance by student athletes. She has also significantly grown revenues for the program in a number of ways. Director Barbour has recently taken a number of steps to address the rapid increase in IA expenses. However, the Council believes Director Barbour needs to make immediate and meaningful changes in managing the costs and budget of IA, and take full advantage of what we see as the philanthropic potential of the program.

We recognize that such a significant reduction in campus support presents an enormous challenge. To meet that challenge, we offer here a set of proposals. We have grouped the recommendations and suggestions as “What must change” and “Choices for further change.” We note at the outset, however, that we recognize that we are largely in the realm of guess-timate and conjecture, given the changing revenue landscape and the difficulty of predicting behavioral effects in philanthropy. We have therefore hesitated to give estimates of savings or revenue enhancements that can be realized. Nonetheless, we believe that the following steps will significantly alter the financial direction of IA and will point towards the sustainable future the Chancellor has rightly demanded.

What Must Change:

- (1) Financial reporting:** We believe that the current system of accounting in IA (which is shared with much of campus) is unacceptable, and makes serious financial management nearly impossible, since costs cannot be measured until

⁵ Should media revenue gains be substantial enough, then we believe a lower level of campus support would be justified – that is, new revenues should decrease the level of campus support, rather than simply cover increased program expenses.

long after they are booked. Fortunately, we understand that Vice Chancellor for Administration Frank Yeary and Assistant Athletic Director Laura Hazlett are making significant progress in bringing adequate accounting practices to IA.

Furthermore, we believe that at a minimum the following should be done on a monthly basis: all general ledger accounts should be reconciled, variance analysis of actual to budgeted dollars prepared and reviewed, and all financial reports should be timely and accurately prepared. All policies and procedures should be improved upon, documented, and followed. We believe a system of quarterly reviews of financial statements by IA as well as between IA and Vice Chancellor Yeary is essential to controlling costs and managing the budget.

- (2) Cost control:** The Council recognizes that IA is, in many respects, the public face of Berkeley, and that success and quality in its programs plays an important role in spurring philanthropy directed at the core academic mission of the university. Hence, we recognize that somewhat greater expenditures by IA are offset by the yield in philanthropic support to the rest of campus. Nonetheless, the explosion of controllable and semi-controllable costs in IA, especially in coach and staff payroll, makes it clear that IA has been playing by a very different set of budgetary rules from the rest of campus. While the rest of campus has, over several years, cut deeply into the bone of academic staff and programs, IA's staff has grown significantly, as have program expenses. The culture of what has appeared to be unconstrained spending must change.

The Council therefore recommends that the Athletic Director impose strict spending caps for both teams and central staff. Team budgets should be treated as effectively non-negotiable, including in the revenue sports. Unauthorized expenditures cannot be reimbursed.

We understand from Director Barbour that many of these changes are in motion. This is very encouraging.

- (3) Cost reductions:** Not only must costs be controlled, they must be reduced. This is both a financial and political necessity, given the sharp cuts both in other campus units, and in other athletic programs, such as Stanford's and UC Davis. Moreover, the cuts that IA takes must be publicly visible. We do not presume to dictate specific cost reductions, but we do note that the significant increase in staff, and at the assistant coach level, suggests that reductions can be made. We also believe that reducing rosters, as well as scholarships, is a path that should be considered before teams are dropped from varsity status. The Council recognizes and applauds IA's current efforts to reduce their administrative budget by \$2.4M.
- (4) Administrative reorganization:** The Council was struck by the baroque intricacy of IA's organizational chart. The chart alone suggests that IA would benefit from direct Operational Excellence scrutiny. It does not appear that IA has a management structure adequate to the \$70M enterprise that it is, and the

Council believes that administrative simplification would not only reduce labor costs (especially costs outside direct support of student athletes), but also would enable tighter financial discipline. To strengthen the management team of IA we suggest the addition of two IA officers—a Director of IA Development and a Chief Operating Officer, both of whom would report directly to AD Barbour. The Director of Development should be a senior university development professional with specific experience in constructing strategic plans for philanthropic development, establishing staff goals and objectives, and creating measurement systems to determine progress towards goals. The COO should be someone with a successful background in management of \$70M enterprises, responsible for all aspects of the operations of IA. We also suggest that consideration be given to adopting the general corporate model under which the CFO is a direct report to the CEO or in this case the Athletic Director. Such a reporting relationship will, we believe, strengthen financial control and discipline in the organization. We further recommend that such positions be created and funded through reductions in other areas of the payroll.

More generally, the administration of IA should be held to the same standards of excellence as the coaches and the athletes – and the rest of the university. This is entirely consistent with the goals of Operational Excellence, which seeks to drive a change in the overall Berkeley administrative culture, to make it match the academic culture of high performance with no excuses. The Council believes that IA will benefit significantly from the Operational Excellence project and process. We therefore recommend that IA be subject to a “deep dive” as part of the OE effort.

- (5) Development -- general:** We believe that IA’s philanthropic potential could be more fully developed. For example, the current annual donor participation in the annual Bear Backer program is 1.6% of our alumni. Our sense is that this is at the low end of the range for similar Pac 10 annual fund-raising programs leaving UC Berkeley, potentially, with significant upside potential. We also believe that it is critical to IA's long term financial sustainability to ensure that the objectives of the Endowed Seating Program are fully realized. We believe that IA should embark on an aggressive reshaping of its development programs, using methods proven to work among Berkeley's potential donors such as challenge grants and matching gift programs.

As mentioned earlier, the Council therefore recommends the addition of a Director of IA Development reporting directly to AD Barbour and filled by an experienced, strategically-oriented, university development professional who is comfortable in coordinating IA efforts with University Relations. In general, the Council believes that IA development staff must be as oriented to central campus philanthropic development as they are to campus athletics. Taking a sample of the most committed supporters of IA, that is, the top 138 lifetime donors to the program, we learned that this group has collectively given \$280M to athletics --

and \$370M to academics. This clearly demonstrates that fund-raising efforts for both academics and athletics are “bound at the hip.”

Finally, we believe that rapidly increasing IA philanthropic momentum is so important to IA financial sustainability that changes must be implemented immediately. Accordingly, we recommend the Chancellor temporarily assign a senior University Relations development professional on an interim basis to work with AD Barbour in reshaping IA philanthropic strategy. This assignment would continue until the position of Director of IA Development can be filled.

(6) Development – specific: We believe that ultimately, the viability of the non-revenue teams depends on their ability to convince an alumni and fan base to provide endowment support. We also firmly believe that there is a significant untapped philanthropic capacity for the non-revenue as well as the revenue sports. Therefore, we believe that IA must take specific steps to provide incentives and support for team coaches to raise endowments for their sports. Specifically, we suggest the following steps:

- a. Coaches should be paired with development staff (as are academic deans) to raise team funding.
- b. Coaches (and supporters) should be given a strict timeline so that they understand that the continued varsity-level support of their team depends on their meeting specific funding targets.
- c. Teams that succeed in reducing their costs to campus should be rewarded with assurances of their continued varsity status.
- d. Men’s and Women’s teams could, in some instances, raise funds for their common sport’s endowments together, not for separate teams; for example, endowing Men’s Golf should entail simply supporting “Golf.”
- e. Fundraising goals should aim to make the sports self-supporting, not only with regard to their direct but also some proportion of their indirect costs.

The Council recognizes that the Endowment Seating Program, if successful in the long-run, will be of major help in sustaining the non-revenue sports. However, we lack the luxury of time to await the success of the Endowment Seating Program, so we believe the above-mentioned steps are critical components of our immediate fund-raising efforts. Should the ESP program fail to meet its projections, the stadium liability would present a very serious problem for the campus.

(7) Public Relations: The Council suggests that, no matter what decision the Chancellor makes, it be supported by an aggressive public relations and media campaign, directed by the central campus, to explain these actions to the campus, alumni, donor, and general public communities. If the decision is made to cut sports, then it is important to convey the message that this is the end of the cuts. If sports are not cut at this time then it will be critical to convey to these

constituencies the basis of the need for financial support to maintain the comprehensive excellence and the breadth of the IA program to which we aspire.

- (8) Campus support:** As we discuss above, the Council has concluded that the campus should adopt a transparent and unambiguous definition of “delta” that can be easily calculated and used in future financial reports. This definition should clearly resolve the questions noted above, concerning which expenditures count within the IA budget. Further, the ceiling of campus support should be no higher than an average of \$5M, including both direct Chancellorial and Registration Fee support. In stipulating an average level of support, we take notice of the volatility of elements of IA’s cost and revenue model. Such volatility will affect the level of campus support in the immediate future. However, it is also clear that IA must build up its own reserves to buffer the volatility in its environment. The Council does not believe that the current system is sustainable, of a stipulated level of support, coupled with a loan from the Vice Chancellor for Administration (whose budget includes IA) to cover deficits in excess of the agreed-upon level of campus support. Instead, it leads only to a buildup of unsustainable debt which the program cannot plausibly repay, given its structural revenue gap.

Second, we believe that campus support should be clearly labeled as “Scholarship Support” for the non-revenue sports (which can treat such scholarships largely as a cost of their own operations). Treating the campus support of scholarships in this way would make clear that central campus funding reflects the core mission of the university, and directly serves the interests of its students.

III. Choices for further change:

We have indicated thus far operational and other changes to IA that must be part of its path forward. We indicate in this section further options for the Chancellor to explore, including our assessment of their merits. We add that we do not believe that the forms of cost reduction and control discussed above, while necessary, are sufficient to reduce the funding gap to the requisite level. Therefore, we believe that at least some of the following options must also be employed.

- (1) Chancellorial leadership in the Pac 10 and NCAA:** For many years, everyone has decried the spending race in intercollegiate athletics, but no one has actually done anything about it. Even though the arms race has been debilitating for many – indeed most – schools, efforts at cost control have largely failed. The Council has come to two conclusions. First, discipline in the spending race must be provided above the Athletic Director level, at the Chancellorial or presidential level, because the willingness to take a competitive risk by limiting expenditures must be defended by the head of the institution. Second, this discipline will not emerge by simply suggesting or requesting cooperation from other divisional leaders – the logic of

collective action means that the members of the group will always prefer to wait to see if someone else will take the risk.

Thus, the Council believes that Chancellor Birgeneau can and must be the first mover in an attempt to slow athletics spending. He is exceptionally well-positioned to do so, first, because of the national leadership for which he is so well recognized; second, because of his membership on the Executive Committee of the Pac 10; and third, because he has already, through appointing this Council, taken significant steps to unite his local constituencies behind him.

The release of the *Restoring the Balance* report may provide an ideal platform for this Chancellorial initiative, putting Berkeley at the leading edge of a reform movement aimed at ending the spending race and restoring the centrality of academic values to IA. In keeping with the Knight Commission report, we can imagine a number of ways that Berkeley could take leadership in its reform agenda, resulting in significant savings: restricting the size of travelling squads and supporting entourages; reducing the number of athletic scholarships (which would also increase walk-on student-athlete participation); moderation in the escalation of coaching salaries, particularly in revenue sports; and reductions in the number of non-coaching personnel. We encourage exploration of the Commission's recommendations. We further note that the Commission's recommendation that media revenues be distributed in part in relation to academic success would likely be very favorable to Berkeley.

- (2) Team elimination:** The Council believes that it is far preferable to cut costs without cutting teams, rather than to cut teams. So many of Cal's teams have storied pasts that elimination of teams (that must of course be consistent with gender equity/Title IX requirements) could have significant repercussions for philanthropic support of the campus as a whole. While Council members are not in full agreement on the magnitude or duration of any philanthropic blowback from scope reduction, we all accept that there would be negative effects, and are sobered by Vice Chancellor Biddy's estimate of a level of backlash of at least \$25M annually.

Our charge did not call for us to make a recommendation one way or another on this specific point. Instead we were asked to enumerate the considerations for and against achieving sustainability by this means. We therefore present here those considerations, as well as a third alternative to be considered. Individually, some of the Council members do believe that campus should seriously consider reducing the number of varsity teams in IA, while others prefer the alternatives.

Arguments Pro: Those favoring reducing the number of teams believe that, notwithstanding the efficiency (in average cost-per-athlete) of Cal's sports, the relatively large number of teams exacerbates IA's general problem of costs exceeding revenues. Put simply, when almost every long-term financial trend in college sports is unfavorable to the goal of sustainability, reducing the number of teams would reduce Berkeley's exposure to these forces.

Second, reducing the number of teams to a level commensurate with the rest of the Pac 10 (excepting Stanford) would be an important internal and external political signal that IA recognizes the full difficulty of the campus's financial circumstances. Moreover, only a cut in the range of 5-7 teams, bringing us to the Pac 10 norm, would result in significant savings. (The entire Council agrees that it is not worth eliminating only 1 or 2 teams.) These members believe that the political cost to the campus of maintaining as broad a program as it does, while simultaneously increasing tuition costs and cutting back on academic offerings, is and will remain significant. The faculty members of the Council note that while most faculty and staff will support some central subvention of intercollegiate athletics, especially one framed entirely in terms of scholarship and educational support, a level of subvention on the order of \$9-\$13M, which appears to be what is entailed by maintaining the full fleet of 29 teams, would be extremely demoralizing to university employees who are struggling to maintain academic programs and services for our students with significantly diminished resources.

The internal signal, within athletics, would also be important in two respects: negatively, it would signal that the department must reconfigure itself dramatically to cope with a realistic amount of funding. Positively, paring back teams would signal that the program has acted decisively, rather than engaging in a slow bleed, and would provide some assurance to the remaining teams that further reductions will not be made.

Third, the Council believes that any athletic program Berkeley mounts must reflect the ideal of comprehensive excellence: we should not field a team unable to compete at the highest levels of the sport. A consequence of the structural funding gap is that funding for the whole portfolio of sports must be reduced. Some members of the Council believe that it is preferable to have fewer, better-funded teams (as other Pac 10 schools do) rather than more, poorly funded teams.

If the Chancellor does opt to reduce teams, we suggest that IA employ the following criteria, taken directly from the mission statement of athletics, for deciding which teams should be retained:

- record of athletic success,
- the success and integrity of the academic programs of team members
- the extent to which the team is or can readily become self funded
- compliance with the provisions of Title IX

Arguments contra: A number of members of the Council feel strongly that it would be a mistake to reduce the number of teams from current levels, especially before the results of other forms of cost-reduction are tried. All members of the Council acknowledge the force of the arguments against, which can be summarized as follows:

(a) The projections of the DIA and of some Council members are very likely to be excessively pessimistic. We are just emerging from the most significant recession in at least 30 and possibly 70 years. Behavioral economics informs us that human nature causes our projections to be overly negative when the economy is weak and overly optimistic when it is strong. This tendency is exacerbated in a university which is understandably not entirely comfortable dealing with a highly cyclical business. In that context, it should hardly surprise us that the reported "loss" doubled during this recession. We should regard any projections with a high degree of skepticism.

(b) The savings from eliminating a number of sports are *de minimis* relative to the total campus enterprise. The purported savings of \$3-\$4M are well within the range of error in any projections one would make. Given the immediate human costs of cutting teams, and the potential negative effect on philanthropy, "the juice is not worth the squeeze." Furthermore, given campus's increasing reliance on philanthropic support, taking any actions that might alienate significant donors is very risky. There is a further risk, even among donors not directly connected to IA, that the visibility of such cuts may make Berkeley appear to be beginning to slip, thus further driving away philanthropic giving.

(c) It is unrealistic to expect a sport once downgraded from varsity status to be able to regain that status. Moreover, it is naïve to expect the surviving teams, alumni, and the outside world to feel assured that there are not more cuts to come. The effects on athlete and coach recruitment in non-revenue sports could be significant.

(d) Cutting activities or departments is not consistent with what a great university should be. Very few organizations shrink their way to greatness. Moreover, while some schools have eliminated teams, most have not, and Berkeley risks being viewed as out of the mainstream in taking such extreme measures (notwithstanding the larger than average number of teams it fields).

(3) A development-centered strategy to reach a sustainable support level:

The Council would also like to present an alternative strategy, one that attempts to resolve the structural gap without eliminating teams (and thus avoids the costs of philanthropic backlash).

This strategy is proposed to cover the period between FY2010, with a forecast of an expected IA delta in the range of \$14M, and FY2014, when we would hope that IA could reach the targeted support level of \$5M.

The purpose of the strategy is to allow time, before possibly cutting sports, for the full benefits of Operational Excellence, improvements in IA Development and Operations structure and staffing, and the new Pac 10 media contract and potential expansion, to kick in and be realized in IA's financial statements.

The strategy presumes that the Chancellor sets annual support level targets for each

fiscal year between FY2011 and FY2014 with the expectation that the sustainable average level be reached by the final fiscal year. For example, if the gap between now and then is roughly \$9M (\$14M minus \$5 million) the Chancellor could set a target for IA to reduce the support level each year by \$2-\$3M. So, for FY2011 the support target could be \$11-\$12 million, \$9-\$10 for the next fiscal year, and so on. This strategy carries with it the strong possibility that, if IA cannot attain the annual goals set by the Chancellor, or the support level average of no more than \$5 million by FY2014, then sports will have to be cut.

Execution of the strategy would be based on having IA Development raise \$2-\$3M each year so as to lower the Chancellor's support needed for that fiscal year. Note that the \$2-\$3M in philanthropic support would be additional revenue. Combined with the incremental cost savings realized in any given fiscal year, this would speed up the process of reaching the average \$5M support level. Some alumni members of the Council believe that this would be a quite attainable goal considering our huge alumni base – a base not yet fully explored by IA development. Based on the experience of some of the alumni Council members, we would suggest soliciting matching gifts to help kick start this four-year annual fund-raising effort. The concept to donors of matching gifts as “free money” is very powerful, as shown by the success of the Hewlett match.

The principal concern about this strategy is that in buying time, it may simply defer decisions that should be made more quickly, leading to a greater demand on campus resources -- and one potentially harder to reverse, once the urgency of the moment is lost. If the targets are not met, campus will be faced with a series of incremental decisions about IA, whether to extend timelines or alter goals. This may ultimately create worse relations with alumni supporters of IA. However, the Chancellor can ameliorate this concern by strictly holding IA to the annual support goals he sets, and making clear the consequences if not met.

This strategy, if adopted, would require aggressive public relations and media support explaining the objective of preserving all IA sports programs, and the consequences if unsuccessful.

IV. Conclusion:

The Council recognizes that IA presents no easy choices for the campus. It is a strong program, and Berkeley's investment in it has reaped significant rewards -- for direct participants, audiences, and for the campus as a whole. But our environment is now one of difficult choices, paring back what we would like to do lest we otherwise sacrifice what we must do. Moreover, given our campus's commitment to excellence in all that we do, the choices we must make must be made quickly and decisively, because temporizing leads to mediocrity.

We are encouraged that some of the items on our list of what must change, principally changes in financial controls and spending reductions, seem to be in progress. We do not believe that those items are sufficient, however, for the sustainability of IA at the level

we believe can be justified. As charged, we have therefore presented a series of further options, sketching their advantages and disadvantages. Each member of the Council feels that the Council's composition of equal parts faculty and alumni has produced a report that is both comprehensive and balanced in addressing the challenge of IA financial sustainability. We have all enjoyed the process of working together on this important assignment and stand ready to help implement the decisions you make.