

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC 20515

October 2, 2006

Dr. Myles Brand
President
National Collegiate Athletic Association
700 West Washington Street
Indianapolis, IN 46206

Dear Dr. Brand:

Since 2004, the Committee on Ways and Means of the U.S. House of Representatives has been conducting a broad review of the tax-exempt sector. As the sector increases in size, scope, and economic impact, the need for Congress to conduct comprehensive oversight grows as well.

Educational organizations comprise one of the largest segments of the tax-exempt sector, and most of the activities undertaken by educational organizations clearly further their exempt purpose. The exempt purpose of intercollegiate athletics, however, is less apparent, particularly in the context of major college football and men's basketball programs.

As you know, the National Collegiate Athletic Association (NCAA) represents intercollegiate athletics in legislative matters before the Federal government. As the Committee continues its review, I am writing to request information on whether major intercollegiate athletics further the exempt purpose of the NCAA and, more generally, educational institutions. Your responses to the following questions will assist the Committee in this matter.

Questions Relating to the NCAA's Educational Mission

1. The annual return filed by the NCAA with the Internal Revenue Service states that the primary tax-exempt purpose of the NCAA is to "maintain intercollegiate athletics as an integral part of the educational program and the athlete as an integral part of the student body." How does the NCAA accomplish its purpose of maintaining "the athlete as an integral part of the student body"?

2. The annual return also states that one of the NCAA's purposes is to "retain a clear line of demarcation between intercollegiate athletics and professional sports." Corporate sponsorships, multimillion dollar television deals, highly paid coaches with no academic duties, and the dedication of inordinate amounts of time by athletes to training lead many to believe that major college football and men's basketball more closely resemble professional sports than amateur sports. The NCAA has no control over two of the differences between professional and amateur sports: the level of play and the tax exemption for college athletics revenue. Beyond rules prohibiting compensation for college athletes, what actions has the NCAA taken to "retain a clear line of demarcation" between major college sports and professional sports?
3. Some representatives from college athletic organizations have justified the tax-exempt status of college sports based on claims that high-visibility programs help sustain a large pool of student applicants and generous financial contributions. Neither of these arguments is valid from a Federal standpoint. Federal taxpayers have no interest in increasing applicant pools at one school opposed to another. Furthermore, if financial contributions to universities increase based on athletic success, contributions to other worthy charities may decline.
 - a. From the standpoint of a Federal taxpayer, what benefits does the NCAA provide taxpayers in exchange for its tax exemption?
 - b. From the standpoint of a Federal taxpayer, why should the Federal government subsidize the athletic activities of educational institutions when that subsidy is being used to help pay for escalating coaches' salaries, costly chartered travel, and state-of-the-art athletic facilities?
4. Officials from the NCAA, athletic conferences, and universities have explained that college football and basketball should be tax-exempt because some universities generate a profit from these sports that is used for other university-sponsored sports. To be tax-exempt, however, the activity itself must contribute to the accomplishment of the university's educational purpose (other than through the production of income). How does playing major college football or men's basketball in a highly commercialized, profit-seeking, entertainment environment further the educational purpose of your member institutions?
5. Educational institutions in other NCAA divisions spend a fraction of the amount Division I-A schools spend on their football and men's basketball programs. These higher expenditures are ostensibly for educational purposes. What additional educational value is received by participation in Division I-A athletics beyond that which is received by participation in other division or intramural athletics? If additional educational value is derived from participation in Division I-A athletics, does the additional educational value justify the higher expenditures?

6. According to studies, incoming athletes at many universities have lower average SAT scores and high school grades than those of the general student body. Do the minimum initial eligibility standards currently in place adequately ensure that high school athletes can succeed academically at universities?
7. In order for a high school student to become eligible to compete in intercollegiate athletics, the NCAA requires high school athletes to take a core curriculum of academic courses and earn a minimum grade-point average while in high school. Why does the NCAA not have similar requirements for athletes during their collegiate careers?
8. In recent years, there have been many reports of athletes taking college courses that lack academic rigor. Several schools have reportedly steered athletes toward professors and academic majors that are less challenging.
 - a. What actions has the NCAA taken to assess the substance of the courses athletes are taking and, more generally, the quality of the education athletes receive?
 - b. Does the NCAA collect information from its member institutions to determine whether athletes are disproportionately taking certain professors, courses, or academic majors at individual schools?
 - c. Would requiring the public disclosure of the professors, courses, and academic majors of athletes help ensure that they receive a quality education?
9. At Division I-A schools, only 55 percent of football players and 38 percent of basketball players graduate – compared to 64 percent of the general student body. These figures understate the gap between the graduation rates of the general student body and athletes, since many regular students fail to graduate for financial reasons, which is not an issue for athletes on full scholarships.
 - a. Are the NCAA's member institutions accepting athletes who would not otherwise be admitted but for their athletic prowess?
 - b. For twenty years, the Federal graduation rate for male basketball players has remained basically unchanged at about 40 percent. Why has the NCAA made no progress in ensuring that athletes who play on the court also graduate from the schools for which they are playing?
 - c. The defending Division I-A national champion in football graduated 29 percent of its players compared to 74 percent of the university's student body for the class entering in 1998. Similar large differences in graduation rates exist at other colleges and universities. Considering this

gap, how well is the NCAA accomplishing its tax-exempt purpose of maintaining “the athlete as an integral part of the student body”?

- d. To improve the graduation rates of athletes, has the NCAA considered adopting a rule tying the number of grants-in-aid that can be awarded to a member institution’s graduation rates?
10. The NCAA recently created the Academic Progress Rate to measure the cumulative progress made by athletic teams towards a degree. Based on the new measure, the NCAA will take away scholarships from teams that do not meet a threshold that is equivalent to a 50-percent graduation rate, which is an extremely low standard.
- a. Why is a team penalized only when more than half of its players fail to graduate?
 - b. Should athletes who are not advancing toward a degree be eligible to participate in college sports?
11. During the last few decades, the NCAA has increased the maximum number of football and men’s basketball games that each member institution can play. This year, the NCAA changed the rules to allow schools to play an additional, twelfth football game. Also this year, the NCAA approved an increase in the maximum number of basketball games teams can play in a season and lengthened the season by one week. Including preseason and postseason tournaments, basketball teams can now play more than forty games in a season.
- a. Why did the NCAA make these rule changes?
 - b. How do these rule changes further the educational mission of the NCAA and your member institutions?
 - c. How do these proposals help athletes improve academic performance?
 - d. At what point does playing additional games have a detrimental impact on academic performance?
12. In 1973, the NCAA adopted a rule prohibiting financial aid from being awarded to an athlete for more than one academic year. This rule allows schools and coaches to withdraw financial assistance from athletes who do not perform well on the field, which may overemphasize athletics at the expense of academics.
- a. Why did the NCAA adopt this rule?
 - b. How does this rule further the educational mission of the NCAA and your member institutions?

Questions Relating to NCAA Finances

1. How much total revenue does college sports generate each year? How much do your member institutions spend each year on college sports?
2. For Division I-A football programs, please provide the following information for the most recent year for which you have statistics:
 - a. Total annual revenue;
 - b. Largest amount of revenue generated by one school;
 - c. Total annual expenditures; and,
 - d. Largest annual expenditure by one school.
3. For Division I basketball programs, please provide the following information for the most recent year for which you have statistics:
 - a. Total annual revenue;
 - b. Largest amount of revenue generated by one school;
 - c. Total annual expenditures; and,
 - d. Largest annual expenditure by one school.
4. How many of your member institutions generate a net profit on the operations of their athletic departments (excluding university subsidies such as student fees or general school funds and services)? Of the institutions that generate a net profit, how many use the profit for purposes unrelated to the athletic department?
5. At Division I-A schools, what is the average annual expense (including the cost of grants-in-aid):
 - a. Per athlete?
 - b. Per football player?
 - c. Per men's basketball player?
 - d. Per women's basketball player?
6. According to NCAA expenditure reports, public universities spent as much as \$600,000 per men's basketball player during the 2004-05 school year.
 - a. How does spending hundreds of thousands of dollars on each men's basketball player further the educational mission of universities?
 - b. How much money must be spent by athletic departments to ensure that athletes receive an educational benefit from the activity?

7. According to NCAA data, athletic department budgets are growing several times faster than the university budgets of your member institutions. In addition, athletic department expenses are increasing at a higher rate than athletic department revenues.
 - a. Why are athletic department budgets increasing faster than university budgets?
 - b. Why are athletic departments spending money at an increasing rate?
 - c. How does spending even more money on Division I-A football and men's basketball further the educational mission of universities?
 - d. What actions can the NCAA take to control rising spending?
8. The NCAA has entered into an agreement with CBS to televise the men's basketball tournament. According to the terms of the agreement, CBS will pay the NCAA an average of \$545 million per year in tax-free money. The president of CBS Sports was quoted as saying, "There is no more important event at CBS, not just CBS Sports, than the men's basketball championship."
 - a. How does the transformation of the NCAA men's basketball championship into commercialized entertainment further the educational purpose of the NCAA and its member institutions?
 - b. The NCAA receives 85 percent of its revenues from the sale of television rights. What is the influence of television networks on the NCAA's decisions? Please include a description of the influence television networks have on the scheduling of games and on the maximum number of games allowed to be played in a season.
9. Each year, the NCAA distributes more than \$100 million from its Basketball Fund to Division I institutions. These monies are distributed based on performance in the NCAA tournament; each tournament victory earns more money for the winning team's athletic conference. Rewarding athletic instead of academic performance seems to be contradictory to the NCAA's tax-exempt mission, and sends a message to member institutions and athletes that athletics is more important than academics. Why does the NCAA distribute more than \$100 million each year based on athletic rather than academic performance?
10. What percentage of NCAA revenue is spent by your member institutions on solely academic matters?

11. Coaches' salaries account for one of the biggest expenses of Division I-A athletic departments. According to reports, more than 35 college coaches receive salaries of at least one million dollars per year. Sources of revenue to pay these rising salaries include student fees, corporate sponsorships, and television deals. Paying coaches excessive compensation also makes less revenue available for other sports, causes many athletic departments to operate at a net loss, and may call into question the priorities of educational institutions.
 - a. Several Division I-A schools pay their men's basketball coaches four to five times more than their women's basketball coaches. What additional educational benefit do men's basketball coaches provide beyond that which is provided by women's basketball coaches?
 - b. What actions has the NCAA taken to encourage its member institutions to curb excessive compensation for college coaches?
 - c. In 2000, the NCAA repealed a rule requiring all athletics-related coaches' income to be reviewed and approved by the university. Why did the NCAA repeal this rule?

12. Current law allows donors to deduct charitable contributions to educational institutions, including contributions to university athletic departments. If the donor receives the right to purchase tickets in exchange for a charitable contribution, current law allows the donor to deduct 80 percent of the amount of the contribution.
 - a. What percentage of athletic department revenue at Division I-A institutions comes from charitable donations, including donations given for the right to purchase tickets?
 - b. How much money was donated to Division I-A athletic departments in 2005, including donations given for the right to purchase tickets?

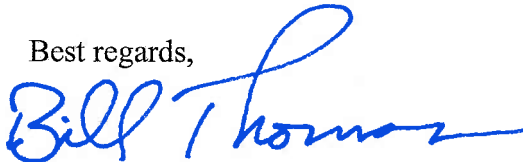
13. In 1997, Congress passed a law exempting from taxes qualified corporate sponsorship payments received by tax-exempt organizations.
 - a. How has this law affected the use of corporate sponsorships by the NCAA and your member institutions? Have corporate sponsorships become more prevalent?
 - b. How much revenue do corporate sponsorships generate annually for your member institutions?

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If the NCAA is unable to respond to any of the questions in this letter due to lack of information, please explain why the NCAA does not compile such information to determine whether its tax-exempt mission is being accomplished.

The information you provide will assist the Committee in its oversight efforts. I would appreciate receiving your responses by October 30, 2006. Thank you for your cooperation and assistance in this matter.

Best regards,



Bill Thomas
Chairman

WMT/mr

cc: The Honorable Charles Grassley