

The Impact of Reclassification from Division II to DI-AA and from Division I-AA to I-A on NCAA Member Institutions from 1993 to 2003

INTRODUCTION

Purpose of Study

Recent years have seen a number of National Collegiate Athletic Association (NCAA) Division II institutions seeking reclassification to Division I-AA, as well as Division I-AA institutions moving to I-A . The purpose of this study is to investigate the impact of the reclassification process on the both the financial and non-financial well-being of the reclassifying institutions from 1993-2003. We discuss the differences between Divisions, the reclassification process, and the perceived incentives for reclassification, and also address previous research validating and/or contradicting the perceived incentives for Division I membership in terms of financial wealth, enhanced stature, increased enrollment, higher academic standards for applicants, etc. Our analysis suggests that while revenues tend to increase after reclassification, they are subsumed by cost increases such that net profits decline for reclassifying institutions. Though we provide evidence of some increase in diversity in enrollment, it is far from overwhelming. We conclude that the primary benefit of reclassifying is an increase in prestige.

NCAA Division Differences

“A basic purpose of this Association is to maintain intercollegiate athletics as an integral part of the educational program and the athlete as an integral part of the student body and, by so doing, retain a clear line of demarcation between intercollegiate athletics and professional sports.” (Bylaw 1.3.1)

The purpose of the NCAA is consistent across the 1,000 member institutions, but the application of this purpose varies philosophically, operationally and legislatively by the three membership divisions; Division I, II, and III. An over-generalization would describe Division I as the wealthiest division providing athletics scholarships and as the most heavily legislated. Division II also provides athletics scholarships with fewer financial resources and less legislation. Division III is the least legislated and does not offer athletics scholarships.¹ The three divisions of the NCAA federated in 1996 to increase individual division autonomy. The separation included reconstruction in the governance structure and the legislative process. Each division has become more

¹ Division III membership is markedly different from those of Divisions I and II and will not be explored in this paper.

independent and unique as the following descriptions will demonstrate. (See chart for NCAA Membership Requirements: Figure 20-1).

Division II Membership

The Division II philosophy believes intercollegiate athletics should be based on educational principles and practices consistent with the mission of the university to serve the welfare of the student-athlete. The philosophy statement lists ten principles with overriding commitments to the following:

- academic success and personal development of the student-athlete
- equitable athletics opportunities for all students
- competition against other Division II institutions
- proper balance between athletics and campus life
- the awarding athletics financial aid
- institutional control of intercollegiate athletics
- embracing the Division II philosophy (Bylaw 20.10).

Division II philosophy is paired with two operational membership requirements concerning 1) sport sponsorship and 2) financial aid allocation. Division II institutions must offer a total of ten teams, which must consist of (a) four varsity sports consisting of two team sports of all-male or mixed teams of males and females, and (b) six varsity sports consisting of two team sports of all-female or mixed teams of males and females. Division II institutions can also choose to balance their sport sponsorship by offering five primarily male teams and five primarily female teams (Bylaw 20.10.3). To meet sport sponsorship requirements, the sport must provide the appropriate number of participant opportunities and meet the scheduled contests limits to be recognized (could attach the sport sponsorship requirements bylaw 20.10.3.5). In terms of athletically related financial aid, Division II institutions must award 50 percent of the maximum allowable equivalencies (or scholarships) in four separate sports, two of which must be for women's sports. The total expenditures for the athletically related financial aid must be worth a minimum of \$250,000, including \$125,000 in women's sports (Bylaw 20.10.1.2). Relative to Division I, Division II is less regulated, likely a result of fewer concerns with competitive equity and more institutional control to govern athletically related activities.

Division I Membership

The Division I philosophy calls for a balance of competitive equity and student-athlete well-being. The philosophy statement lists eight principles committed to the following:

- academic quality
- athletics excellence
- service to the public
- extensive athletics opportunities
- spectator/revenue producing sport objectives
- competition against other Division I opponents
- self-sufficient operations
- respect for all divisions while sustaining Division I principles for current membership and for institutions aspiring to be Division I members.

The delicate balance between revenue production through the entertainment market and protection of the educational intent of intercollegiate athletics has led to increased legislation in personnel, amateurism, recruiting, eligibility, financial aid, awards and benefits, playing and practice seasons and post-season competition. (See Division I manual for further explanation).

Division I is further classified in terms of football sponsorship by Division I-A, Division I-AA and Division I-AAA. Division I-A offers the highest level of sponsorship in terms of number of participants and financial resources. Division I-AA offers fewer football scholarships than Division I-A and does not have the stadium attendance restriction. Division I-AAA institutions do not offer football, but do offer all other Division I athletics opportunities. The Division I membership requirements include sport sponsorship of 16 teams, competition scheduling against Division I institutions, and financial aid requirements. Division I-A has additional football sponsorship requirements.

Division I-AA

Division I-AA institutions can choose to balance their 16 sport sponsorship by offering at least seven primarily male teams and seven primarily female teams (Bylaw 20.9.7). Division I-AA institutions must award 50 percent of the maximum allowable equivalencies (or scholarships) in fourteen separate sports. The aggregated expenditures for the athletically related financial aid is a minimum of \$877,000, (\$438,000 for women's sports), excluding men's football and basketball, or in terms of full grants, 25 grants for men's sports, other than football and men's basketball, and 25 grants for women's sports (Bylaw 20.10.1.2).

Division I-A

A Division I-A institution must offer a total of 16 teams, which must consist of at least six varsity sports, containing two team sports of all-male or mixed teams of males and females and eight varsity sports, containing two team sports of all-female or mixed teams of males and females (20.9.6).

To meet sport sponsorship requirements, the sport must provide the appropriate number of participant opportunities and meet the scheduled contests limits to be

recognized. Athletics financial aid for sports other than football is the same as Division I-AA. Division I-A football, however, must allocate 90 percent of the 200 athletics grants over a two-year period, and these grants must total \$4 million. Division I-A football requirements also include an average actual attendance of 15,000 for all home football games, and the institution must perform an annual certification audit to validate the attendance record.

Reclassification Process

The reclassification process is a five year educational program with the purpose to assist institutions with the transition to the philosophy of the new Division and its rules compliance and operations. Institutions applying for Division I membership are reviewed by the Division I Management Council to ensure the “readiness” of becoming a Division I institution. The reclassification process is based on three principles: 1) to involve the institution’s president, athletics director, faculty athletics representative, senior women’s administrator and compliance personnel, 2) to establish a timeline for the transition and 3) to provide guidance in terms of the Division I philosophy, Division I membership regulations, development of institutional compliance policies and promotion of campus-wide involvement.

Reclassification Requirements

The reclassification process contains seven educational activities that must be completed to meet active membership status; in addition to meeting Division I legislative compliance. First, the institutional officials must attend annual orientation sessions for education on the Division I philosophy, membership requirements and issues concerning Division I athletics. Second, the institution must submit an annual strategic plan of implementing the Division I philosophy and operating principles. Third, annual attendance to the NCAA Convention by all of the institution’s officials is required. Fourth, the institution must receive instruction in and demonstrate knowledge of the NCAA Division I rules. Fifth, the institution must devise a compliance education system and self-assessment plan to ensure Division I compliance in the future. Sixth, at the end of the reclassification process the institution must complete an NCAA certification visit, during which the Division I certification team will visit the campus to evaluate the capacity of the reclassifying institution to operate at the Division I level. Seventh, the institution must verify it has met Division I membership requirements and formulated the key elements to operate athletics programs at the Division I level. We present the reclassification procedure and the timeline for reclassification in Appendix I.

Perceived Divisional Benefits

The literature suggests several reasons institutions may consider reclassifying. Given the cost of the reclassification process, as well as the continuing increased level of expenses, the initial benefit to consider is increased revenue. Increases in revenues may come from increased ticket sales, conference distributions, post-season earnings, and alumni/booster

contributions. (It should be noted here that research concerning the correlation of athletic success and alumni/booster contributions is inconclusive.) Although increased spending that accompanies reclassification is inevitable, it is hoped that the increases in revenues outpace the increases in expenditures.

Another potential benefit is increased exposure after reclassification, which may result in an increase in applications and an increased academic pool, as well as greater diversity and immeasurable intrinsic benefits.

Finally, reclassification may yield an increase in reputation and prestige, as the perceived quality of an institution's academic program is often tied to the success on its athletic program. Related benefits, of course, are immeasurable and intrinsic. It should also be noted here that

A recent study by Orszag and Orszag (2005) found that there is a significant increase in revenue following reclassification, but this is subsumed by an increase in spending. The Orszag study does not address non-financial ramifications of reclassifying, which is a primary contribution of this study.²

DATA COLLECTION

Eleven institutions were identified who reclassified from Division I-AA to Division I-A during the period from 1993 to 2003. Eighteen institutions were identified as having moved from Division II to I-AA. Of the latter, insufficient data were found for ten of the schools, leaving eight for observation. (See Appendix II.)

The financial data collected for each institution included total revenues (after removal of direct institutional support) and total expenses. The resulting net operating profit or loss was then calculated. Direct institutional support represents transfers of funds from the institution's general fund, or other units, to athletics. It should also be noted that the operating expenses do not include debt service or capital expenditures.

The non-financial data collected included ethnicity and gender of the institution's student body, ethnicity and gender of the student athletes, graduation rate of the student body, graduation rate of the student athletes, and the number of varsity sports sponsored by the institution.

The data were collected from NCAA archives of the biennial Revenues and Expenses of Intercollegiate Athletics Programs report, the annual Graduation Rate Report, and the annual Equity in Athletics Disclosure Act (EADA) data.

² See Orszag, J.M. and Orszag, P.R., 2005, "Empirical Effects of Division II Intercollegiate Athletics", Competition Policy Associates, Inc.

RESULTS

Financial Observations

Based on the data collected and utilized for the nineteen reclassifying schools, the following distinct trends were noted.

Division I-AA to Division I-A

In every instance, total revenues increased steadily during the years subsequent to reclassification. Moreover, in only one instance for each of three schools did total revenues decline from one year to the next, and each of those declines was minimal. Thus, the common belief that a change in division will enhance revenues is confirmed. We add, however, that, statistically, there was no change in average adjusted revenues from the years before the reclassification to the years after. For comparison, we also examined how revenues changed for schools from the same division that did not reclassify. Somewhat surprisingly, average revenues for these schools increased by a greater amount over the same period. Although this finding may be partially explained by the fact that the operating budgets of reclassifying schools were generally much larger than those of the control group, this observation is, nonetheless, interesting.

Concomitantly, total operating expenses show similar but more dramatic steady increases subsequent to reclassification. Again, there appear only one year for each of three schools in which total expenses declined. Only one of these was substantial. On average, over all schools in our sample, expenses increased by a statistically significant \$2.572 million from the years before the reclassification to the years after, which is well over the amount by which revenues increased. However, similar institutions that did not reclassify experienced a significant and quantitatively similar increase in expenses over the same period.

The impact on net income or loss, of course, is determined by the extent to which revenues increase relative to operating expenses. It should be noted that all eleven of the reclassifying institutions were experiencing net operating losses prior to reclassifying. Although results are mixed, the majority of the schools (seven) experienced substantially greater net losses subsequent to reclassifying. Two of the schools show a reduction in their operating loss, one remained stable, and another showed losses that fluctuated greatly from year to year. Statistically, after the reclassification, there was a significant decrease in average net profits, on the order of \$1.732 million. In general, the financial picture of reclassifying schools does not improve. Rather, the scope of both total revenues and total expenses, and in most cases net losses, simply gets larger.

	Prior Loss	Subsequent Loss
School A	\$6,200,000	\$5,800,000
School B	\$ (100,000)	\$1,400,000
School C	\$3,700,000	\$5,500,000
School D	\$4,100,000	\$ 0
School E	\$ 600,000	\$1,700,000
School F	\$ 100,000	\$1,600,000
School G	\$ 0	\$5,700,000
School H	\$2,300,000	\$4,600,000
School I	\$2,800,000	\$3,400,000
School J	\$ 0	\$ 400,000
School K	\$4,000,000	\$3,000,000

Division II to Division I-AA

Although the financial level at which Divisions II and I-AA operate is significantly lower than that of Division I-A, the percentage change in revenues, expenses, and net losses is much more dramatic for these reclassifying schools than for those above.

The percentage increases in revenues for the eight schools subsequent to reclassification are generally vast. One school experienced a 1200 percent increase; another 600 percent; a third tripled its revenues; and another saw an increase of 214 percent. Only one of the eight saw its revenues remain stable. On average, revenues for schools reclassifying from Division II to Division I-AA increased by a statistically significant \$1.741 million after the reclassification. Economically, the average revenue for reclassifying programs after the reclassification is also significantly greater than the average revenue for a random sample of Division II schools that did not reclassify.

Unfortunately, operating expenses grew at an even greater rate, as all eight schools saw total expenses almost double (or more) those prior to reclassifying. Many schools experienced even greater increases, as evidenced by the resulting net losses. As was the case for schools reclassifying from Division I-AA to Division I-A, average expenses increased by approximately \$2.445 million after the reclassification, which is not only statistically significant, but economically significantly more than the \$1.417 million average increase in expenses that non-reclassifying Division II firms experienced over the same period. Net profits also decreased after the reclassification by nearly twice as much as they did for non-reclassifying schools.

	Prior Loss	Subsequent Loss
School A	\$3,600,000	\$6,900,000
School B	\$2,100,000	\$4,900,000
School C	\$2,800,000	\$6,300,000
School D	\$3,700,000	\$5,500,000
School E	\$2,700,000	\$6,200,000
School F	\$2,500,000	\$3,700,000
School G	\$1,400,000	\$4,400,000
School H	\$1,600,000	\$3,600,000

Non-financial Observations

Ethnic Diversity

Given the absence of financial benefits of reclassifying, institutions must rely on either intrinsic benefits or measurable non-financial benefits to justify their move. One often cited benefit is the potential to gain better diversity among the student population.

Data available for purposes of measuring ethnic diversity in an institution's student population include enrollment numbers in the following groups:

- Black, non-Hispanic men
- Black, non-Hispanic women
- Asian or Pacific Islander men
- Asian or Pacific Islander women
- Hispanic men
- Hispanic women
- White, non-Hispanic men
- White, non-Hispanic women
- Total men
- Total women
- Total enrollment

Division I-AA to Division I-A

Before versus After Reclassification. Total enrollments for both the reclassifying schools and the control group have been steadily increasing during the entire ten-year period reviewed. This also holds true when the total enrollment before reclassification is measured against the enrollment subsequent to reclassification. Both groups show substantial total enrollment increases, as well as substantial increases for both groups in

white men and white women. A significant difference between the two groups is found, however, in the increases in the number of Black, non-Hispanic men and women. The reclassifying schools show a significantly greater increase in these areas than the control group. This holds true only in terms of total student count, however. When viewed as a percentage of total enrollment, the increases (before and after) are not significantly different for the two groups. The only significant “before and after” difference is found in the Asian or Pacific Island ethnic population. The decrease in this segment is significantly greater for the reclassifying schools than for the control group.

Only After Reclassification. More substantial differences between the two groups of schools are found when enrollment data during only the period subsequent to reclassification.

- Reclassifying schools experienced a greater increase in the number of Black, non-Hispanic men than the control group during the period after reclassification
- Reclassifying schools experienced a greater increase in the number of Black, non-Hispanic women
- The control group experienced a marginally greater increase in the number of Asian or Pacific Islander women
- The control group experienced a greater increase in the number of Hispanic women
- Reclassifying schools experienced a greater increase in the number of White, non-Hispanic men
- Reclassifying schools experienced a greater increase in the number of White, non-Hispanic women
- Reclassifying schools experienced a greater increase in Black, non-Hispanic men as a percentage of total enrollment
- Reclassifying schools experienced a greater increase in Black, non-Hispanic women as a percentage of total enrollment
- The control group experienced a greater increase in Asian or Pacific Islander men as a percentage of total enrollment
- The control group experienced a greater increase in Asian or Pacific Islander women as a percentage of total enrollment
- The control group experienced a greater increase in Hispanic men as a percentage of total enrollment
- The control group experienced a greater increase in Hispanic women as a percentage of total enrollment
- Reclassifying schools experienced a marginally greater increase in White men as a percentage of total enrollment
- Reclassifying schools experienced a greater increase in Total men as a percentage of total enrollment

Tested Statistical Significance. Schools moving from Division I-AA to Division I-A generally saw a statistically significant increase in the average number of both male

and female students (respective averages increased from 8224.5 males to 10716.5 and 9269.7 females to 12608.0).

Division II to Division I-AA

Before versus After Reclassification.

Tested Statistical Significance. Schools moving from Division II to Division I-AA also saw a statistically significant increase in the average number of men and women. Specifically, the respective averages for men and women increased from 417 males to 543 and from 465 females to 611 after the reclassification. Non-reclassifying schools witnessed a similar increase in the average number of men and women. Interestingly, in schools that did not reclassify, the percentage of white men as a portion of total men increased significantly, though this was not the case for schools that reclassified. In terms of percentages, none of the ethnic groups experienced a statistically significant change after the reclassification. While the control group experienced increases in the raw number of Hispanic men and women as well as white men and women, the control group only experienced a significant increase in the *percentage* of white men. Indirectly, this may suggest that reclassification may help sustain a certain element of diversity.

Somewhat noteworthy, looking only at the years after the reclassification for schools that reclassified as compared to schools that did not reclassify, the average percentage of black men (women) as a portion of the total number of men (women) is statistically significantly lower for reclassifying firms. Nonetheless, the relative proportion of white women is greater after the reclassification.

Graduation Rates. It is also worth mentioning that, on average, for those schools reclassifying to Division I-AA, graduation rates for both the student body as well as student athletes are significantly greater in the years after the reclassification for reclassifying schools than they are for the schools that did not reclassify.

Because of the NCAA's use of a six year consortium for graduation rate purposes, combined with the timing of the reclassifications to Division I-A, sufficient data are not yet available for investigating the impact of reclassification on these schools.

Sports Sponsorship

In response to questions concerning the impact of an institution's reclassification on the number of varsity sports sponsored by that institution, related data were collected

for both the reclassifying and control groups were collected for this study. Results are discussed below.

Division I-AA to I-A. For the 1993 fiscal year, the average number of varsity sports sponsored by Division I-A institutions was ten men's teams and nine women's teams – a total of nineteen. For fiscal 2003, the average had fallen to eight men's teams and nine women's. For the reclassifying schools in this study, however, the average for the group moved from eight men's teams and eight women's teams (total of sixteen) in 1993 to eight men's teams and ten women's teams (total of eighteen) in 2003. No school in the group saw a decline in total sports sponsored, although two remain the same. Rather, all eleven increased the number of women's teams sponsored, and four reduced the number of men's teams. The NCAA now requires that all Division I schools offer a total of fourteen varsity sports – either seven men's and seven women's, or six men's and eight women's.

Division II to I-AA. For the 1993 fiscal year, the average number of varsity sports sponsored by all Division I-AA institutions was ten men's sports and eight women's. For fiscal 2003, the averages were seven men's sports and eight women's. For the reclassifying group, the averages in 1993 were eight men's and seven women's and in 2003 were nine men's sports and ten women's. Two schools show a drop in total sports sponsored, while all show an increase in women's offerings. Five show a reduction in men's offerings.

CONCLUSION

This study evaluates financial and non-financial benefits to reclassification. We find that for both Division II schools that reclassify to Division I, as well as for Division I-AA schools that reclassify to Division I-A, increased revenues from reclassification are obliterated by increased expenses, such that, on average, net profits after reclassification decrease. We also uncover some changes in the diversity of the student body. Nonetheless, these changes are not consistently significantly different from similar schools that did not reclassify during the same period. Overall, our study suggests that there are neither obvious financial nor considerable non-financial *measurable* benefits from reclassification and that the primary motivation to reclassify is intangible (e.g., increased prestige).

Appendix I

Reclassification Timeline

The reclassification process begins with an exploratory year. If the institution chooses to confirm their intent to reclassify to Division I following the end of the exploratory year, the institution can proceed with four more years of the reclassification process. The Division I Management Council is responsible for advancing an institution to the next level/year of the reclassification process, provided the annual requirements are met. Failure to meet the requirements by the specified timeline can suspend progress toward Division I membership.

Exploratory Year

The Division II institution must submit an application and \$15,000 fee to the Division I Management Council by August 25, stating the desire to become a Division I institution to prompt the exploratory year. During this exploratory year the institution's officials must attend the following events: 1) NCAA Convention, 2) NCAA Rules Seminar and 3) Orientation Session. By the following June 30, the institution must confirm the intent to reclassify and draft a skeleton strategic plan for the transition to Division I membership. The strategic plan should encompass the Division I philosophy and operating principles.

Year One

By the start of the first year of the reclassification process, the institution should be in compliance with Division I legislation and requirements for sport sponsorship. At this time the institution is no longer eligible for Division II championships and is not eligible for Division I championships until they have reached "active membership."

Year Two

By the start of the second year of the reclassification process the institution should be in full compliance of Division I legislation, which means the institution will count as a Division I opponent to meet scheduling regulations of other Division I schools. The institution's officials must continue their education by attending the NCAA Convention and the third orientation session. The institution must submit an annual report in addition to the updated strategic plan.

Year Three

The third year of the reclassification process requires the attendance of the institution's officials at the NCAA Convention, the third orientation, and NCAA Rules Seminar sessions for updates on Division I issues. The institution must complete an

NCAA compliance review, which is a preparation for the final certification visit in year four. The institution must also submit an updated annual report and strategic plan including recommendations from the Division I Management Council.

Year Four

The final year of the reclassification process continues to require the attendance of the institutional officials to the NCAA Convention, NCAA Rules Seminars, and the final update of the annual report and strategic plan. The institution is also required to complete a self-study for evaluation by the NCAA certification team. The NCAA certification team will conduct an on-campus evaluation of the Division I status of the institution and make a recommendation to the Management Council to grant the institution active membership.

APPENDIX II

Reclassification from Division I-AA to I-A (Date)

University of Alabama at Birmingham (9/1/96)
Boise State University (9/1/96)
SUNY Buffalo (9/1/99)
University of Connecticut (9/1/02)
University of Idaho (9/1/98)
Marshall University (9/1/97)
Middle Tennessee State University (9/1/99)
North Texas State University (9/1/95)
Portland State University (9/1/02)
University of South Florida (9/1/01)
Troy State University (9/1/02)

Reclassification from Division II to I-AA (Date)

Fairfield University (9/1/96)
Jacksonville University (9/1/98)
LaSalle University (9/1/97)
Monmouth University (9/1/94)
Sacred Heart University (9/1/99)
Southeast Missouri State University (9/1/91)
SUNY Albany (9/1/99)
SUNY Stony Brook (9/1/99)