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# MSA 643

## Sport Finance

### Belhaven University

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#### Unit 1

#### Financial Issues in Sport

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# Welcome to Sport Finance

Throughout this course, we will engage the literature by raising awareness of the financial aspects of sport management from a Christian Worldview perspective. This will assist each of you to identify the Christian principles of honesty and the deleterious effect of greed as they relate to financial reporting and ethical business practices. Moreover, each student will be able to understand how the basic financial statements articulate to each other; as well as, understand the importance and derivation of a cash budget. These practices, throughout the literature, will assist each student in gaining the knowledge needed in understanding finance.

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# Format for Unit Sessions

- Introduction
  - Topics
  - Objectives
  - Lecture
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# Learning Tools

- Class lectures
    - Hearing and seeing
  - Textbook
    - Reading
  - Individual homework
    - Analyzing
  - Discussion forum
    - Applying and examining
  - Completing all components is very important to accomplish the objectives of the course.
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# Online Learning

## ■ Characteristics

- ❑ Online learners must be highly self-motivated.
- ❑ Online learners must have high responsibility for assignments and discussions.

## ■ Facts

- ❑ Online learning is not easier than traditional classroom learning.
  - ❑ Learners must meet deadlines.
  - ❑ It's easy to think we're anonymous because there's no face time.
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# Tips for Success

## ■ Course Page

- Activities
  - Individual homework
- Discussion forum
  - Weekly discussions
- Media
  - Module
  - Handouts & links
  - Class lectures

## ■ Schedule

- Be attentive to deadlines.
  - The week (unit) begins on Monday and ends on Saturday.
    - Observe Sabbath
    - Manage your time
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# Tips for Success, cont.



- Communicate
  - ❑ Ask questions
  - ❑ Participate
  - ❑ Be engaged in discussion
  - ❑ Seek handouts
  - ❑ Contact the professor with questions or problems

# Course Objectives

- ❑ Understand where revenue comes from for sport enterprises.
- ❑ Understand the difference between cash and accrual accounting systems.
- ❑ Understand the value and use of budgets.
- ❑ Compare the various types of financial markets and the way in which they affect the sport industry.
- ❑ Identify the elements of the balance sheet and income statement.

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# Introduction

- This unit begins by focusing on the importance of managing money and how impactful it is for anyone in the sport industry.
  - It will also analyze the value of sport broadcasting contracts with the top professional leagues.
  - Lastly, this unit will end by defining special key terms that will benefit each student throughout this course.
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# Topics

- Financial Issues in Sport
  - Managing Money
  - Financial Skills
  - Sports Sponsorships
  - Financial New Stadiums and Arenas
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# Objectives

- Understand how important managing money is for anyone in the sport industry.
  - Understand how math, strategy, and managerial skills are crucial for financial decision making.
  - Appreciate that some sport businesses are billion-dollar enterprises.
  - Critically analyze the value of sport broadcasting contracts.
  - Appreciate that sport sponsorship represents a strategic financial decision.
  - Understand major developments in stadium construction trends.
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# Unique Issues in Sport Finance

- Should a team join a league?
  - What is the value of players, and should they be traded?
  - How do you create budgets to run a team, gym, or facility?
  - Should the cost of tickets go up or remain the same?
  - How do you obtain funds for a new sport business, new stadium, or new college campus athletic facility?
  - Should colleges cut teams in order to close a budget gap? Should they add teams in order to produce more revenue?
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# Managing Money

- Finding, managing, tracking, and spending money refer to specific finance-related functions in a company or business.
  - Failure to properly manage money can cause a business to fail.
  - Financial planning is necessary for keeping the business successful and prosperous.
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# Managing Money, cont.

- **Internal constraints:** Include a company's past credit history, sales volume, product lines, accounts receivable, inventory balances, and management structure.
- **External constraints:** Include inflationary conditions, significant competition, high interest rates, weak economic indicators, shrinking of the money supply by the government, and the political environment.

Although it takes money to make money, you cannot make money unless you understand all the internal and external variables that affect your ability to properly manage your finances.

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# Sport Ownership

- Tampa Bay Buccaneers owner Malcolm Glazer spent \$1.47 billion to purchase a controlling interest in Manchester United.
  - \$503 million of his own money
  - \$490 million in loans
  - \$509 million from issuing preferred securities
- Dallas Cowboys worth \$1.8 billion in 2011.
- New York Yankees worth \$1.7 billion in 2011.
- Ten NFL teams in 2010 were worth at least \$1 billion.

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# Sport Broadcasting Rights

- Large broadcasting contracts
    - The NCAA received \$2.8 billion from CBS for a seven-year contract.
  - NFL biggest money maker
    - Fox has a National Conference deal worth \$4.4 billion (\$550 million per season), which included rights to half the Super Bowl games when it was signed.
    - In 2011, ESPN extended its contract to cover Monday Night Football for nearly \$2 billion a year through 2022-2023.
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# Sport Broadcasting Rights, cont.

- NASCAR
    - Second only to the NFL in sports viewership
    - \$2.4 billion, six-year contract with General Electric–owned NBC and AOL Time Warner's TNT
  - Advances in technology that are changing how sports are attracting fans and being broadcast to fans (e.g., mobile apps) are helping to fuel larger contracts.
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# Financing New Stadiums & Arenas

- Through 2001, 111 major professional sports franchises were operating in North America, and 91.9% (102) moved into new or significantly renovated stadiums.
  - In 2009, more than \$3.2 billion was spent on professional facilities and more than \$1 billion on college facilities.
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## Financing New Stadiums & Arenas, cont.

- Total taxpayers' cost for stadiums or arenas built from 1995 through 2000 has been estimated at more than \$9 billion.
- The average level of team contribution to new NFL stadiums built through 2001 was only 29%, or \$82 million, of the typical construction cost for a football stadium.

# Financing New Stadiums & Arenas, cont.

- Many studies have shown that very few facilities are able to cover their costs.
  - One major study concluded that older arenas with little debt and numerous scheduled events (NBA, NHL, Ice Capades, family shows, circuses, and so on) tended to make the highest profit, while new stadiums for outdoor sports were least profitable.

# Financing New Stadiums & Arenas, cont.

- New stadium and arena projects rely on various funding techniques ranging from private contributions to municipal bonds.
  - **Municipal bonds:** Municipal notes and bonds are publicly traded debt with the benefit of not having to comply with all of the registration requirements that other publicly traded securities need to follow.

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# Questions for Class Discussion

- DQ1: From a financial standpoint, what are similarities and differences between events that happened in the past and events that occur today? Please answer in complete detail and use examples.
  - DQ2: Sports are big business for any college or university. Why do modern Universities build major sport and recreation complexes on campuses? What is the financial benefit and what sort of financial resources are needed to complete such an undertaking. Provide an example of a university, which just built a new athletic facility. Include the finances in your discussion.
  - *Requirements: 250 words minimum initial post, 100 words minimum reply*
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# Unit Recap: Key Terms

- **Accounting:** The process of calculating revenue and expenses through receipts and other facts to determine the numbers for a company or entity.
- **Managerial accounting:** More closely aligned with finance as it focuses on identifying the costs to produce a good or service so that financial planning can more effectively plan for the future.
- **Finance:** The process of examining the numbers and determining what they mean and what the past was and future will be for a company or entity; often entails identifying current and future revenue and expenses and determining future budgets to help an organization succeed.
- **Economics:** In contrast, takes the numbers and financial projections from numerous companies or entities to explore future trends.

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# References

## ■ Required Textbook:

Fried, G., Shapiro, S., & DeSchraver, T. (2013). *Sport Finance*, (3rd ed.). Champaign, IL: Human Kinetics. ISBN 13: 978-1450421041

## ■ Article Listed for Unit 1:

Baade, R.A. & Matheson, V.A. (2011). Financing Professional Sport Facilities. *International Association of Sport Economists*. Retrieved from [http://college.holycross.edu/RePEc/spe/MathesonBaade\\_FinancingSports.pdf](http://college.holycross.edu/RePEc/spe/MathesonBaade_FinancingSports.pdf)

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