The Sports Spin-Off

A Long-Term Hedging Strategy for Higher Ed Institutions Facing Demographic Decline

Scott Jellen
Software Developer | Retail Sales Veteran | Strategic Thinker
📧 scottjellendev@gmail.com
🔗 linkedin.com/in/scottjellen
🖥️ scottjellen.com

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Abstract

U.S. higher education is confronting a crisis of declining enrollment, rising costs, and financial volatility. Simultaneously, collegiate athletics—though culturally significant—often drain resources and distract from the core academic mission. This whitepaper proposes a strategic solution: universities spin off their athletics departments into independent entities, licensing their branding and facilities back to these new companies.

By doing so, institutions generate predictable licensing revenue streams that compound into substantial financial reserves. This financial structure allows universities to reinvest strategically in education and infrastructure, insulating them from market shocks. When the sports-media bubble inevitably bursts, institutions will be ideally positioned to reclaim distressed sports entities at a fraction of their peak value, aligning them more closely with institutional missions.

This forward-thinking model provides not just financial resilience—but an actionable pathway to institutional reinvention.

1. Context & Problem Statement

1.1 Declining Enrollment

- U.S. college enrollment has been in decline for over a decade, with projections forecasting continued drops through 2035 due to demographic shifts and alternative career pathways.

- Fewer students translate to decreased tuition revenue, empty dormitories, and reduced auxiliary income.

1.2 Rising Costs & Operational Inefficiencies

- Many institutions face growing costs tied to infrastructure, faculty, administration, and compliance—while revenue growth slows or stalls.

- Athletic departments, despite their visibility, frequently operate at significant losses. In 2022 alone, NCAA Division I public institutions reported median athletic deficits exceeding **$14 million**, forcing reliance on student fees and institutional support.

1.3 Brand Dilution & Mission Drift

- Athletics, especially in Division I programs, can overshadow the academic mission.

- The university brand becomes synonymous with sports success rather than educational excellence.

2. Strategic Proposal: Spinning Off College Sports

By removing day-to-day oversight of athletics, university leadership can focus on academics and fundraising for core initiatives—rather than navigating sports controversies. Boosters, meanwhile, are encouraged to direct their financial support to the new entity, functioning more like stakeholders in a professional franchise.

2.1 Create a Separate Entity

- Universities license their name, branding, facilities, and mascot to a newly formed, independent sports company.

- This entity handles all operational responsibilities—recruitment, salaries, NIL deals, broadcasting rights, etc.

2.2 License & Royalty Model

- Schools receive annual licensing revenue via a tiered agreement:
    - Base licensing fee adjusted for inflation.
    - Enrollment-adjusted escalator to hedge against student population decline.
    - Bonus incentives tied to media revenue or exposure.

In 2022, the NCAA generated over **$870 million** in television and licensing revenue. The Big Ten alone signed a **$1.2 billion/year** media deal. These figures underscore the potential power of university brand licensing—even before considering individual sponsorships or streaming revenue.

Each school and conference offers unique value: some provide massive national fan bases, others offer regional loyalty or strong digital engagement. This model accommodates a wide spectrum of institutional scale.

2.3 Investment Strategy

- A majority of licensing income is funneled into a strategic investment fund, modeled like an endowment.
- Allocations include:
  - Student scholarships
  - Academic program development
  - Mission-aligned infrastructure

According to the 2023 NACUBO-TIAA Study, endowments under $100M saw **average 10-year annualized returns of 6.5%**. This supports the viability of using sports revenue to build long-term institutional strength.

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3. Market Dynamics & Competitive Realignment

3.1 Early Adoption Advantage

- First-movers may gain leverage in media deals, partnerships, and athletic governance reform.

3.2 Formation of New Leagues

- Independent sports entities could form their own alliances, resembling professional leagues and optimizing monetization models.

3.3 Fan Fatigue & Saturation

- Oversaturation will likely dilute fan engagement over time.
- Audience fragmentation leads to falling attendance, loyalty, and monetization capacity.

4. Collapse Scenario & Strategic Buyback

Why Distress Emerges Over Time

Even billion-dollar sports entities are vulnerable over decades. Compliance mandates (like Title IX), rising costs for non-revenue sports, and media saturation all erode profitability. Unlike universities, these companies cannot absorb losses indefinitely.

Over time, these entities may become bloated, overleveraged, and culturally disconnected—setting the stage for collapse despite earlier profitability.

A real-world parallel is **The CW Network**, acquired by Nexstar in 2022. While terms weren't disclosed, Nexstar assumed over **$100 million in annual losses**, effectively acquiring a once-valued brand by absorbing its liabilities. (Reuters, 2022)

4.1 Market Correction

Economic downturns, streaming fatigue, or generational disinterest in college sports could trigger a sharp valuation decline.

4.2 Institutional Opportunity

- Institutions with disciplined investment strategies could reacquire sports assets at steep discounts.

- This enables mission re-alignment, brand reconnection, and control without the historical liabilities.

5. Case Study: Rutgers University

2022 Snapshot:

- Revenue: ~$124M
- Expenses: ~$133M
- Deficit: ~$9M
  (Source: Knight-Newhouse Data)

Spin-Off Projection:

- Licensing Income: $18M
- Annual Investment: $14M
- 40-Year Fund Value (6%): ~$2.48B
- Strategic Buyback Cost (Year 40): $40M (~1.6% of fund)

Result: Rutgers could reclaim operations while retaining a billion-dollar reserve—without compromising academics.

6. Conclusion: Hedge the Mission

Spinning off athletics allows universities to separate volatility from mission. Licensing creates stable, compounding revenue. Investment fuels long-term growth. And when the inevitable collapse hits, the institution has the leverage—not the liability.

This model isn't just a hedge. It's a blueprint for resilience.

Call to Action:

Universities should:

- Form a cross-functional task force (legal, athletic, financial, academic)
- Run simulations using real athletic data
- Engage donors and boosters early
- Define pathways for Title IX compliance in spin-off structures

7. Risks & Considerations

7.1 Legal and Regulatory Uncertainty

- NCAA governance, Title IX obligations, and state laws could complicate the process.
- Changes in NIL policy, media rights, and athlete employment status may introduce compliance challenges.

7.2 Brand Identity Risk

- Separating athletics from the institution may confuse alumni or dilute the brand.
- Poorly managed licensing could damage long-term trust.

7.3 Financial Volatility

- New entities may face unexpected early losses or cash flow gaps.
- Schools must be conservative in fund planning to ride out downturns.

7.4 Competitive Inequity

- Smaller schools may lack the brand power to replicate this model fully.
- Disparities in outcome may further widen the gap across institutions.

8. Appendix: Long-Term Projection & Scenarios

A. 40-Year Financial Growth (6% Return)

Year	Annual Investment	Cumulative Investment	Projected Fund
10	$80M	$80M	$111.6M
20	$160M	$240M	$441.4M
30	$240M	$720M	$1.01B
40	$320M	$1.28B	$2.48B

B. Scenario Outcomes

Scenario	Revenue Outcome	Buyback Potential
Sustained Boom	Licensing grows steadily → fund > $3B	Buyback easy, surplus for growth
Plateau	Revenue flatlines → fund ~$1.5B	Buyback still viable, cautious outlook
Collapse	Revenue dips → fund ~$1B	Buyback possible, mission preserved

C. Strategic Flowchart

University
↓
Spin-Off (Athletics)
↓
Licensing Revenue
↓
University Investment Fund
↓
Strategic Buyback

D. Stakeholder Benefits Summary

Stakeholder	Benefit
University President	Reduced exposure to athletic volatility; focus on core mission
Athletic Director	Operational clarity; better forecasting
Boosters	More direct, performance-aligned investment opportunities
Students	Reinvestment in academics and scholarships
Media Partners	Licensing partnerships with clearer asset control

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Author's Note (Updated)

This is a Version 1 conceptual framework intended to spark discussion and refinement. It is not a finalized research paper or formal policy recommendation, but a strategic hypothesis for public exploration and peer response. The financial projections and licensing model outlined herein are based on assumptions, estimates, and hypothetical scenarios. These projections should not be viewed as definitive predictions or guarantees of future outcomes. Actual results may vary depending on market conditions, regulatory changes, and other unforeseen factors. Any implementation of this model would require detailed legal review and consultation to ensure compliance with institutional governance and contractual obligations.

— **Scott Jellen**, April 2025