

MARKET SNAPSHOT

	U.S.	EUROPE	ASIA
DOW	12,019.40	-0.61	-0.01%
S&P 500	1,244.28	-0.30	-0.02%
NASDAQ	2,626.93	+0.73	0.03%

Gold	1,750.50	+0.62%	EUR : USD	1.3393	-0.5087%	Nasdaq	2,626.93	+0.03%	Dow	12,019.40	-0.01%	S&P 500	1,244.28	-0.02%	FTSE 100	2,626.93	+0.03%
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ESPN Longhorn Network Cash Tips U.S. College Sports Leagues Into Disarray

By Aaron Kuriloff and David Miltenberg - Thu Nov 03 04:01:00 GMT 2011

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Last Christmas Eve, University of Texas Athletic Director DeLoss Dodds got the gift he'd been waiting for: a \$300 million promise from ESPN that would shake up college football. Photographer: Erich Schlegel/Getty Images



Nov. 3 (Bloomberg) — Bloomberg's Michele Steele reports on ESPN's agreement with the University of Texas at Austin to let the Walt Disney Co. network build a channel around the school's sports. UT-Austin President Bill Powers signed a 40-year contract with ESPN that guarantees an average \$15 million a year for 20 years. Bloomberg's Betty Liu also speaks. (Source: Bloomberg)

[Chart: Sports revenue](#)

[Chart: Media contracts](#)

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Commentator Lowell Galindo of the Longhorn Network

Last Christmas Eve, University of Texas Athletic Director DeLoss Dodds got the gift he'd been waiting for: a \$300 million promise from ESPN that would transform college sports.

The 74-year-old Dodds, architect of the richest school athletic department in the U.S., celebrated with a glass of red wine after receiving a mobile-phone photo of UT-Austin President Bill Powers signing a 40-page contract with the Walt Disney Co. network. Texas was guaranteed an average \$15 million a year for 20 years for letting ESPN build a channel around its sports.

Dodds knew there was keen interest in the concept, because News Corp.'s Fox and two investor groups had bid against ESPN. He didn't know the Longhorn Network would help shatter decades-old rivalries and destabilize the football conference system, pushing the sport toward a playoff that organizers of 35 bowl games have resisted for decades.

"It's a new world," Dodds said in an interview as he sat in a director's chair in the burnt-orange-and-white north end zone at Darrell K Royal-Texas Memorial Stadium in Austin. "We just happen to be leading the parade."

Within weeks of the channel's debut on Aug. 26, schools were scrapping historic and geographic alliances to enhance their chances of commanding billion-dollar television contracts. The University of Oklahoma is considering creating its own channel, and others may follow suit.

Revenue Race

"It's greed," said William E. Kirwan, chancellor of the University of Maryland system and co-chairman of the nonprofit Knight Commission on Intercollegiate Athletics. "There is so much money on the table that everyone is in a state of panic."

The race for revenue, which affects all levels of college sports down to the scholarship-banning Ivy League, "could lead to permanent and untenable competition between academics and athletics," according to a 2010 report by the commission, which has pursued college athletic reform since its founding in 1989. It's happening at schools like Rutgers University in New Jersey, which spent more money on sports than any

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Game Day talks with former Texas Longhorns basketball players and current NBA stars T. J. Ford of the Indiana Pacers and Kevin Durant of the Oklahoma City Thunder before the Texas Longhorns' NCAA game against the Rice Owls on Sept. 3, 2011 at Darrell K. Royal-Texas Memorial Stadium in Austin, Texas. Photographer: Erich Schlegel/Getty Images

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Head Coach Mack Brown of the Texas Longhorns celebrates a touchdown against the UCLA Bruins during the second quarter at Rose Bowl on Sept. 17, 2011 in Pasadena, California. Source: Getty Images

[Enlarge image](#)



University of Texas fans cheer on the Longhorns as they play the Rice Owls on Sept. 3, 2011 at Darrell K. Royal-Texas Memorial Stadium in Austin, Texas. Photographer: Erich Schlegel/Getty Images

public university in the fiscal year ended June 30, 2010, the most recent for which data are available, while its history department professors had their desk phones disconnected to save money.

At UT-Austin, the Longhorn Network deal will double annual broadcast revenue. It also gives Texas “a level of visibility and status that takes a great brand and elevates it,” said Tom Stultz, senior vice president and managing director at IMG College, a division of the sports-and-entertainment media company [IMG Worldwide Inc.](#) and a partner in the Longhorn Network. “It’s a game-changer because it widens the gap between them and their competition.”

A&M Quits

[Texas A&M University](#), a Longhorn football rival since 1894, responded by quitting the Big 12 Conference for the [Southeastern Conference](#) on Sept. 25. Texas A&M Athletic Director Bill Byrne wrote on his blog that the Longhorn Network gave Texas too much money and power, and that ESPN would “push the envelope” with the channel. ESPN spokeswoman Keri Potts declined to comment for this story.

Four other schools switched conferences within two months, and regents at Big 12 members Texas, Oklahoma, Oklahoma State University and the University of Missouri gave their presidents permission to seek new alliances. West Virginia University sued the Big East Conference Oct. 31, seeking to leave immediately so it can be in the Big 12 next football season.

On its face, the Longhorn Network is nothing more than a cable channel with a narrow focus. In effect, it may resemble [New York Yankees’ YES Network](#), which helped give the baseball team the means to build a \$1 billion stadium and maintain the highest player payroll in North American sports.

McConaughey Introduction

The Texas channel, which has about 70 employees and broadcasts from an eight-story office building north of campus, went on air with an introduction by actor [Matthew McConaughey](#), a UT-Austin graduate. The first match shown was the women’s volleyball team playing [Pepperdine University](#). Texas won.

More than 200 live events will be aired every year, including two football games this season. For the Oct. 29 matchup against the University of [Kansas](#), the network set up two screens on campus to show the Longhorns crush the Jayhawks 43-0.

Most football games can’t be on live because the broadcast rights belong to others. So airtime is filled with replays, interviews, clips of team practices, football Coach Mack Brown’s weekly radio program and features such as “Home Plate with Augie Garrido,” the baseball coach. Before the game with [Rice University](#) on Sept. 3, a [featured](#) recipe was for beef skewers from a restaurant in Austin.

‘Game Changers’

Non-athletic offerings include music performances at the Cactus Café and the “Game Changers” series showcasing academic talent. On Oct. 14, the network aired communications department professor [John Daly](#)’s 20-minute talk on the strategies of business, religious and social leaders.

“It’s nice that they are doing this, but we know that people aren’t going to watch the Longhorn

Network for my lectures,” Daly said. “It’s about sports.”

The idea of a Longhorns-only channel was spawned at a meeting four years ago, according to Dodds, the athletic director. He and Christine Plonsky, the women’s athletic director, were trying to figure out how to get more attention for non-major sports programs.

“We thought we’d have to pay for it,” Dodds said. “But we built something better than we thought we could.”

Still, 12 weeks after its launch, it’s only carried by Grande Communications Inc., a San Marcos, Texas-based operator with about 150,000 customers, Verizon Communications Inc.’s FiOS TV and [a few others](#). Even Dodds can’t watch at home.

Subscriber Fees

ESPN-sponsored radio ads in Texas urge people to call their cable providers to ask them to add the Longhorn Network, and the Disney unit promotes it with commercials on its national channel. In one, campus cooks celebrate by making a stadium replica out of meatloaf, and in another Brown shows off his new widescreen TV, which he says he installed to see the network, and Disney-owned ABC’s “Dancing with the Stars.”

ESPN, which makes money from the fees carriers charge subscribers and from a share of ad sales, is asking the main cable systems in Texas, including [Time Warner Cable Inc. \(TWC\)](#) and [Comcast Corp. \(CMCSA\)](#), to pay 40 cents a subscriber, according to the Sports Business Journal. Justin Venech, a spokesman for Time Warner, said the companies haven’t reached a deal and declined to comment further. John Demming, a spokesman for Comcast, declined to comment. The [Big Ten Network](#) charges 36 cents a subscriber, according to data from media consultant SNL Kagan.

Funding Academics

The Longhorn Network could reach all 7.3 million cable households in a state where high school football games [routinely](#) draw 20,000 spectators. The Longhorns have captured three Associated Press writers’ poll national football championships and have won [about 72 percent](#) of their games.

No matter how many people end up watching the network, the contract signed on Christmas Eve guarantees Texas will receive the \$300 million. The school will use some of the money to endow positions in subjects including math, physics and philosophy.

The athletic department regularly [helps fund](#) scholastics. It can afford to: Texas generated a U.S.-high \$150.3 million in athletic department revenue in the fiscal year ended June 30, about two-thirds of it from football, according to [data compiled by Bloomberg](#). Brown’s salary is \$5.1 million, while Dodds earns \$715,000, university records show.

Unlike Texas, most schools rely on broadcast fees to reduce athletic operating losses that average about \$9.4 million before capital expenses, according to [Andrew Zimbalist](#), an economics professor at Smith College in Northampton, [Massachusetts](#), and the author of books including “[Unpaid Professionals](#): Commercialism and Conflict in Big Time College Sports.”

‘Snowballing Effect’

“They’re looking for some revenue, and when schools like Texas cut special deals for themselves, other schools say ‘I don’t like that,’ and there’s a snowballing effect,” he said.

Most of the broadcast money that helps support top-level college football comes from ESPN and ABC, also owned by Disney, which are scheduled to pay the five top conferences and the Bowl Championship Series a combined \$6 billion in rights fees for deals that stretch as long as 2024, according to the Knight Commission. Fox will pay the same leagues a combined \$1.2 billion through 2026, and the two joined forces to pay the Pac- 12 about \$3 billion through 2023.

The Big Ten Network has a 25-year deal with Fox worth as much as \$2.8 billion. The Pac-12 Conference said in July that it would build a network to be distributed in partnership with Comcast, Time Warner, Cox Communications Inc. and Bright House Networks LLC.

'Precarious' Control

"I think we could ultimately end up with two conferences: one called ESPN and one called Fox," Louisiana State University Chancellor Michael Martin joked at an Oct. 24 meeting of the Knight Commission.

Sports, and college football, matters to broadcasters because it draws a large audience to live programming, where viewers can't skip advertisements with digital video recorders, according to a report by Barclays Capital analyst Anthony DiCelemente. That helps ESPN generate the highest earnings before interest, taxes, depreciation and amortization of any Disney unit, at about \$3.67 billion. In the next two years, DiCelemente said in his report that he expects cable networks, led by ESPN, to drive about 43 percent of Disney's growth.

The ties between media companies and sports conferences has grown since the U.S. Supreme Court ruled in 1984 that the control the [National Collegiate Athletic Association](#) had over football TV deals was illegal restraint of trade.

'Superconference' Playoff

"NCAA control has always been precarious, and now it's especially precarious," said Taylor Branch, author of "The Cartel: Inside the Rise and Imminent Fall of the NCAA," a new ebook published by [Byliner.com](#) through a partnership with the Atlantic magazine.

The 105-year-old association -- which oversees 89 championships in 23 sports at more than 1,000 colleges -- made almost all its \$749.8 million 2009-10 revenue from the broadcast fees for its men's basketball tournament.

Branch said a football playoff could make more. Oklahoma Coach Bob Stoops said Sept. 5 that college sports [may end up](#) with four 16-team "superconferences" that would hold an eight-team playoff, something advocated by President Barack Obama.

At Texas, Plonsky, the women's athletic director, said she wouldn't have believed just four years ago that a media company would want the school's so-called third-tier broadcast rights for sports such as wrestling, track and field and soccer. They had belonged since 1998 to IMG, the privately held sports agency headed by [Ted Forstmann](#), under an agreement in which the agency sold corporate sponsorships on the school's behalf.

Production, Overhead

After IMG agreed to cede its claim, Texas attracted offers from ESPN, Fox and two groups of investors with media industry and sports experience that were interested in selling a channel to distributors, Plonsky said. She declined to identify the investor groups. Fox Sports spokesman [Lou D'Ermilio](#) confirmed the company bid, without saying how much.

The school will pay IMG 17.5 percent of the \$300 million. ESPN's agreement estimates it will spend about \$13 million on a studio and \$26 million each year on production and overhead.

Other schools' anger at Texas is misplaced, said Mike Leach, a former Texas Tech University football coach. "Anyone upset with Texas is mostly rooted in jealousy," he said. "These guys would walk on glass to make the same deal."

-- With assistance from Curtis Eichelberger in [Washington](#) and Michele Steele in New York.
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