

A Game of Give and Take

By Marc Green

When all-pro kicker Jason Elam of the Denver Broncos sent a record-tying 63-yard field goal soaring through the uprights during a nationally televised game at Mile High Stadium last October, both his timing and his placement were right on the money--at least as far as the Broncos were concerned. Not only did Elam's three-pointer give the home team a critical edge in their game against Jacksonville. It gave them an unexpected boost in their campaign to pass Referendum 4A, a ballot initiative that would raise local sales taxes to finance a new football stadium in Denver.

With the TV cameras rolling, Elam's towering kick came to rest beside a broad orange banner advocating a "yes" vote on 4A. Election day was around the corner, and opponents of the tax hike complained that the Broncos were getting an unfair boondoggle in free political advertising.

That's the least of what they got.

After Referendum 4A was approved by a narrow margin, taxpayers started kicking in \$266 million to finance a spanking new, state-of-the-art replacement for Mile High Stadium, the city-owned facility on which the Broncos still held a 20-year lease.

Stadium construction at taxpayer expense has turned into something of a national frenzy. Not just in sports-mad Denver, but all across the continent, a sports arena building boom is going on. Historic sites like Comiskey Park in Chicago, Yankee Stadium in New York, and even idyllic Dodger Stadium in Los Angeles are coldly labeled obsolete. And in cities that have balked at owners' demands for a glitzy new place to play--Cleveland, Los Angeles, Houston for example--hapless fans have seen their Browns, their Rams, their Oilers pack up and head for greener fields in more hospitable locales.

Randy Vataha, president of Game Plan, a Boston-based firm that negotiates stadium deals for pro teams, explained the phenomenon to the Christian Science Monitor: "The trend now is that if you want to have a competitive team, you need a new stadium that is designed to generate revenue [through luxury boxes]. And if the funding comes from the public, there is a much bigger chunk left over for the team. So every sports team and owner are now trying to get as much public money as possible."

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But, as many economists and community activists are quick to note, public money isn't limitless, and the more of it that goes to underwrite sports teams and their playing fields, the less there is to pay for things like health care, education, and human services.

Consider the case of Pittsburgh and its venerable Pirates. In 1993, when the Pirates were on a roll as three-time National League champions, the team's owners threatened to move the franchise if the city didn't agree to bail them out of financial hot water--again.

Eight years earlier, Pittsburgh's city council had approved a \$20 million loan to the team. But repayment was conditional upon the Pirates' "positive cash flow," and because the team had been showing paper losses every year since the loan was made, none of the money found its way back to the city coffers.

Meanwhile municipal agencies were drowning in red ink. User fees had to be imposed at parks and swimming pools, social services were being cut, neighborhood clinics were being closed.

"When is it going to end?" asked the city controller. "The city has better things to do with its resources than to finance baseball team losses...such as helping those in need," said Ken Regal, co-director of Just Harvest, a local anti-hunger advocacy group.

In 1997, frustrated voters finally rejected a proposed tax hike to finance a new stadium for the Pirates. Undaunted, city officials promptly devised an alternative plan to funnel existing tax revenues into the project.

What's the rationale for such stubborn determination? According to conventional wisdom, cities that can attract or hold onto a pro team will increase tax revenues, stimulate economic development, and create jobs. In other words, a new stadium ultimately pays for itself as the economic benefits trickle down to neighborhoods.

But according to economists Roger Noll and Andrew Zimbalist, who have closely analyzed the economic impact that new stadiums and the presence of sports franchises have on local economies, such claims are based more on wishful thinking than on hard facts. In their book *Sports, Jobs, and Taxes*, Noll and Zimbalist debunk many of the rosy myths surrounding public subsidies for sports teams.

Among their conclusions:

- Sports teams and facilities are not a source of local economic growth and employment
- The magnitude of net subsidies usually exceeds the financial benefits
- The most plausible reasons that cities are willing to subsidize sports teams are the intense popularity of sports among a substantial proportion of voters and businesses and the leverage that teams enjoy from the monopoly position of professional sports leagues.

Take just one calculation that illustrates the dubious trade-offs involved: The National Football League's Baltimore Ravens "create jobs" at the rate of \$127,000 per job. The Baltimore Development Corporation does it for \$6,250.

In addition to the concessions that team owners have been able to squeeze out of cities and states, gaping loopholes in the Internal Revenue Code give them exceptionally favorable treatment in terms of depreciation, especially when calculating the value of players. All that, along with a fair amount of selective accounting, lets them take in hefty profits even as they plead poverty.

Michael Ozanian tracks such shenanigans in his annual series of "Sports Team Value Estimates." Here are some of his latest findings (published in Forbes):

- While the National Basketball Association claimed that most of its teams lost money in 1997, they failed to include revenue from stadium naming rights and advertising, luxury suites, and team merchandise stores.
- Miami Dolphins owner Wayne Huizenga manages to bypass the National Football League's revenue-sharing agreement by diverting luxury-suite revenues to Pro Player Stadium rather than split them with the team.
- The Chicago Bulls, who play in a fancy new arena with 216 luxury suites, have been able to exclude 60% of their luxury-suite revenues (or more than \$7 million) from what the NBA defines as "basketball-related income."

Luxury suite revenues are defined as "ancillary" revenues, and as Ozanian points out, "Team owners have saddled taxpayers with much of the capital costs for new stadiums, making this ancillary revenue even more profitable."

Considering the huge sums that cities, states, and even the federal government concede to professional teams in the form of tax breaks, low-interest loans, outright subsidies, sweetheart lease deals and other forms of corporate welfare, we wanted to find out how much they've been willing to give back. Reporters Susan Compo and Sophia Bicos contacted every Major League Baseball and National Football League team and asked them to supply information about their charitable giving programs. Their findings appear on the following pages.

The argument is sometimes made that privately-owned companies shouldn't be in the business of making charitable donations at all--that their sole obligation is to shareholders, not to communities. But that's an especially hard argument to swallow when applied to professional sports franchises, which receive not just moral support from the communities where they play, but so much in the way of lucrative financial incentives as well.

For most businesses, corporate philanthropy will always have more to do with marketing than munificence, and professional sports franchises are no exception. But in the process of pursuing their marketing objectives, some teams clearly do a much better job than others in providing meaningful support.

While comparisons are hard to draw, we found that the teams with the best records of charitable giving and the most effective philanthropic programs tended to be those with staff trained in grantmaking, not just public relations. They also tended to be the ones that make themselves accessible to nonprofits--if only through an information hotline or by posting application guidelines at a Web site.

The teams with the worst performance were those that had no charitable programs at all, and those that appeared intent on building firewalls between themselves and nonprofit applicants.

Not too long ago--before free agency and stadium fever and accelerated league expansion--a team's owner and players might expect to stay in one place long enough to put down roots. They developed a bond with their communities, and in places where teams were owned by notably philanthropic families--the Yawkeys of Boston, the O'Malleys of Los Angeles, the Kauffmans of Kansas City--that bond could be quite strong.

Today such owners are a dying breed, though all may not be lost. In a few instances at least, their passing will have a silver lining for the charitable causes they supported.

When Washington Redskins owner Jack Kent Cooke died in 1997, 90 percent of the team was bequeathed to the charitable foundation that bears his name. Now a proposed sale of the team may generate as much as \$500 million for the foundation, making it one of the richest in the nation.

And in Kansas City, the pending sale of the Royals baseball franchise is expected to bring in \$125 million, all of which will go to donor-advised funds of the Greater Kansas City Community Foundation. "We are on the verge of fulfilling Ewing and Muriel Kauffman's wish that the team they founded remain in Kansas City and that the proceeds of the sale go to charity," said Mike Herman, president of the Royals.

Selling a team so that the proceeds can be used to benefit the community? If turnabout is fair play, that may turn out to be the fairest play of all.