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# **Roots, Roots, Roots for the Home Team: Community-Owned Professional Sports**

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**Daniel Kraker  
David Morris**

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# Roots, Roots, Roots for the Home Team: Community-Owned Professional Sports

Daniel Kraker and David Morris

*"[Sports teams] matter because communities matter...Kids and parents and grandparents matter...Dreams, hopes, passions, common imaginations; things that tell us about who we were, how we are, how we might be—they matter."*  
—former Montreal Canadiens goalie Ken Dryden<sup>1</sup>

Professional sports to many is a religion: people's teams are their deities, their jerseys and jackets are their Sunday clothes, their cheers are their prayers. The derivation of the word fan is well exhibited in Green Bay on a subzero Sunday afternoon, where Packer fanatics bare their chests and wear foam rubber cheese on their heads.

Yet support for a local professional team is more than exuberant devotion and frenzied enthusiasm. Stadiums have been places where all parts of the community meet: black and white, old and young, assembly line worker and CEO. Rooting for the home team is a healthy demonstration of civic pride; it provides a topic for all generations and social strata to discuss and debate. A home team gives continuity to a community's history—sons and daughters who were taken to ballgames now take their own sons and daughters to the ballpark.

This combination of emotion, history and entertainment make sports a business unlike any other. The people of Detroit don't congregate around the television to watch Ford or GM workers build cars; Seattle residents don't watch Microsoft employees design software. But rooting for the Tigers and the Supersonics and the Lions is a natural communal activity.

This intimate connection is what makes it so unbearable to see our teams shipped around the country like so many packaged goods. Fans and nonfans alike remember the tears of anguish on the faces of Cleveland diehards when their beloved football Browns were uprooted for a new, publicly financed, rent-free home in Baltimore.

If the Browns and other teams were simply a business, they wouldn't be worth saving: their payrolls are the equivalent of small to medium-sized firms; they generate little, if any, additional local tax revenue and spending; and they create predominantly low-wage, seasonal jobs, and very few of those. They do not generate new wealth in a community; they simply shift the patterns of local spending. The result, conclude economists Andrew Zimbalist and Roger G. Noll, is that professional sports teams and their facilities have an extremely small (perhaps even negative) effect on overall economic activity and employment.<sup>2</sup>

We love our teams not because they make our economies stronger but because they make us feel more like a community. And it is our sense of place, our sense of community, that has been battered by today's era of footloose franchises, bloodthirsty owners and upstart cities yearning for major-league status.

The game of sports musical chairs is affecting virtually every major city. Between 1992 and 1998 eight teams have changed addresses, uprooting themselves from Minneapolis, Quebec, Cleveland, Los Angeles (the Rams and the Raiders), Winnipeg, Houston and Hartford. They moved because their host cities wouldn't build them a new stadium or because competing cities made a relocation offer so sweet with public subsidies that owners couldn't resist the lure to move. In those same six years another 20 cities paid the blackmail team owners were demanding and remodeled or built a new facility. Still another 44 teams currently are planning a new stadium or have expressed dissatisfaction with the one they're in and are demanding subsidies from their cities.<sup>3</sup> All told, \$7 billion is expected to be spent on new sporting facilities by 2006, most of which will come from taxpayer pockets.<sup>4</sup>



## Failed Strategies

*"There is no such thing as a 'city's team' or a 'fan's team'—a pro sports team is strictly and unequivocally the 'owner's team'."*

—James Quirk and Rodney D. Fort, authors of *Pay Dirt: The Business of Professional Team Sports*<sup>5</sup>

Communities have tried to exercise authority over footloose teams. Oakland in 1982 and Baltimore in 1984 unsuccessfully tried to invoke their legal authority to seize privately owned property (the power of eminent domain) to try to prevent their NFL teams from changing addresses. The courts denied them that power. In the wake of the Cleveland Browns' move, Ohio Representative Louis Stokes and Senator John Glenn introduced the Fans Rights Act of 1995, which would have provided for a narrow antitrust exemption shielding a league from a lawsuit if the league blocks a relocation.

Most of the efforts at the national level have been focused on increasing the cost to cities that subsidize teams. New York Senator Daniel Patrick Moynihan introduced legislation two years ago to prohibit tax-exempt bonds from being used to build professional sports stadiums.

One would think that these kinds of congressional intervention would find support among both liberals and conservatives. After all, conservatives want to limit public spending and liberals believe that spending on sports is a luxury we can ill afford when more basic needs remain unmet. The same year Cleveland offered \$175 million to refurbish Memorial Stadium to prevent the Browns from moving to Baltimore, the city closed eleven schools for lack of funding.<sup>6</sup> In the wake of the Oilers' move to Nashville, Houston Mayor Bob Lanier passionately defended his city's choice to fund neighborhoods, parks, police and youth programs over a new stadium "playground."<sup>7</sup> But even Houston has now succumbed to the siren call of professional sports, building a new stadium for the Astros and setting aside additional funds either for a new Rockets' arena or a new football stadium to attract an expansion club.

No bill to curb the right of teams to move has ever made it out of committee, much less come up for a vote.

Congress has taken no action to staunch the flow of sports teams. Indeed, no bill to curb the right of teams to move has ever made it out of committee, much less come up for a vote in either chamber. Why? One possible reason is that while cities understand how much they lose by being played off against one another, they are reluctant to support a congressional limitation on tax-exempt

borrowing for sports teams because of concern that this could eventually be broadened to limit their borrowing authority for more beneficial purposes. And of course, there is the following political arithmetic: for every two senators trying to hang on to their state's team there are two senators

struggling to obtain a team, and for every city struggling to fund a stadium there seems to be another more than willing to cough up the dough.

## The Fans Rebel

*"I am a sports nut, but too much is too much. Let the greedy, self-centered babies go."*

—Brian Seifert, Minnesota sports fan<sup>8</sup>

When Baltimore's Camden Yards was built in 1992, and Cleveland's Jacobs Field opened in 1994, both were enthusiastically supported by the community, even though both stadiums were financed almost entirely with public money. This new breed of ballpark was smaller and more intimate than its predecessors: great sight lines, modern amenities and a traditional feel. Both are located downtown and city leaders and urban experts alike touted them as sparks for the revival of what were depleted city centers.

But the bloom quickly came off the rose. As the cost of sports arenas soared, along with ticket prices and player salaries, and as cities have looked more closely at the promised economic benefits, public opinion has taken a decidedly negative turn.

Despite the success of the Orioles on the field and at the ticket office, taxpayers haven't seen a return on their investment. Bruce Hamilton and Peter Kahn estimate that Camden Yards generates



about \$3 million annually in economic benefits, but costs Maryland taxpayers \$14 million a year.<sup>9</sup> The new stadium for the Baltimore Ravens, built adjacent to Camden Yards, was much more difficult for politicians to approve, partly because its projected fiscal deficit is even higher than that for Camden Yards.<sup>10</sup>

Contributing to the recent uproar over stadium funding has been the release of a plethora of studies, most focusing on baseball and football stadiums, that have arrived at the same conclusion as Hamilton and Kahn's study: from an economic standpoint, public subsidies for stadiums are simply not worth it. All agree that the benefits touted by subsidy proponents, including job creation, increased tax revenues and increased spending, are grossly overstated.<sup>11</sup>

New basketball and hockey stadiums, on the other hand, don't make headlines quite as often because owners are much more likely to self-finance them. These arenas lend themselves nicely to other revenue-generating events such as concerts and large conventions, and to other sports like figure skating, which supplement and diversify owners' revenue streams. Arenas that house both hockey and basketball teams expect to host from 120 to 160 events a year.<sup>12</sup>

Arenas are also much cheaper to build than baseball and football stadiums and they can be used for both basketball and hockey if owners are willing. Conversely, the recent spate of baseball stadiums construction is due at least in part to the different dimensions of baseball and football fields; football stadiums are simply too large for optimal viewing of baseball.

The United Center in Chicago was financed equally by Jerry Reinsdorf, owner of the Bulls, and Black Hawks owner William Wirtz. A dual-purpose stadium was also just approved in Dallas in February, where the owners of the Mavericks and Stars will pick up the 45 percent of the tab not covered by the public. Nine dual-purpose arenas for NHL and NBA teams have been built in the last decade; seven have been privately financed.

This doesn't mean that most owners don't try to extract every possible drop of public contri-

bution. Some teams have received sweetheart leases where the arena is publicly subsidized but the team retains control of the revenue streams from additional stadium events. Of the 31 arenas for basketball and hockey that have been built in the last decade or have had financing approved, only 13 have been funded completely by the private sector and many of these benefited from city and state government contributions in the form of land acquisition and infrastructure costs.

### **Referenda: Vehicles or Roadblocks for Public Subsidies?**

*"I believe the citizens should have a say in this issue. If the voters pass this, we'll move forward. If the voters don't pass this, we'll still move forward."*

—Mayor Jay Tibshraeny, Chandler, Arizona<sup>13</sup>

When voters are asked directly whether they would fund a sports facility, they increasingly refuse. This has been the result in Minneapolis, Pittsburgh, Columbus and San Francisco. Last November the citizens of Minneapolis voted to amend the city charter to require any city contribution in excess of \$10 million for a sports facility to be approved by voters in a special referendum. San Francisco Bay area voters struck down six public financing initiatives for a new Giants ballpark (three in San Francisco, three in San Jose) in the last decade before the club's owners finally got the message and came up with a plan to finance a stadium themselves—the first privately financed stadium in this country in 30 years.<sup>14</sup>

In some cities, citizens defeated proposals to publicly finance a stadium or ballpark via referenda, only to watch helplessly as their legislators bypassed their votes with stadium financing plans of their own. In 1995 Milwaukee taxpayers solidly defeated (by a 28 percent margin) a proposal to fund a stadium with a sports lottery. A few months later, the state legislature passed a plan for \$160 million in direct public funds by one vote, literally at the eleventh hour—

**From an economic standpoint,  
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when Senator George Petak "changed his mind." Although the stadium circumvented the public will, Petak could not; he was immediately recalled by angry citizens and lost the re-election, which led to the loss of the state senate majority by the Republican party.<sup>15</sup>

Referenda that have succeeded have been extraordinarily close and were all tainted by gross spending disparities, media bias and, in one instance, alleged election fraud. In 1996 in Seattle, Paul Allen, co-founder of Microsoft and the third wealthiest human being on earth with a fortune of some \$17 billion, agreed to buy the NFL's Seahawks (who were on the verge of heading south to L.A.), contingent on the state putting up 75 percent of the \$425 million price tag for a new stadium.<sup>16</sup> In an unprecedented step, Allen personally paid \$1.7 million to persuade the state legislature to call a statewide referendum, and he picked up the \$4.2 million tab for the referendum itself. He then saturated the media with a \$5 million pro-stadium advertising blitz.<sup>17</sup> Stadium foes spent about \$130,000 total.<sup>18</sup> The result? A 51-49 victory for Allen, who Stanford University's Roger Noll estimates earns enough in six weeks to pay for the entire stadium.<sup>19</sup>

Just a year earlier King County taxpayers had narrowly defeated a financing initiative for a Mariners ballpark despite facing the same spending disparities (*The Seattle Times* even donated free ad space to the pro-subsidy campaign).<sup>20</sup> The very next month, apparently stirred by the Mariners' playoff victory over the Yankees, Washington legislators pulled a feather from Wisconsin's cap and appropriated \$270 million in public funds toward a new stadium. And just like in Milwaukee, the new stadium is way over budget, putting taxpayers on the hook for yet greater subsidies.

San Francisco voters passed a referendum on June 4 calling for \$100 million in public funds for a stadium/mall complex for the NFL's 49ers, but only by the squeakiest of margins (1,500 votes

out of more than 173,000 cast) and only after closing a 20 percent gap in the polls in the final two weeks. Stadium proponents outspent their foes \$2.5 million to \$100,000 and enlisted the aid and rhetorical agility of Mayor Willie Brown, whose office allegedly went so far as to set up special polling places at selective public housing projects where support for the stadium referendum was especially high but voter turnout was historically low.<sup>21</sup> District Attorney Terence Hallinan has launched an independent investigation into the allegations.

### The Business of Sport

*"The best way to wind up with a small fortune in baseball is to start with a large fortune."*

—former Philadelphia Phillies owner Ruly Carpenter<sup>22</sup>

What most fans and voters don't realize is that professional sports is a speculative business; most teams operate with very slim profit margins. Teams are essentially venture capital investments. Venture capitalists provide capital to start up businesses in exchange for an ownership stake and hope to earn a return on their investment when the company goes public and their stake is sold to shareholders. Likewise, owners of sports teams offer up a bundle of cash to purchase a team, typically lose money up front and make their money when they sell the team. With teams appreciating by as much as 15-20 percent annually, this often makes for a sizable return.<sup>23</sup>

Nearly half of all NBA teams finished the 1996-97 season in the red despite a \$200 million increase in league revenues from the previous season.<sup>24</sup> Major League Baseball (MLB) teams lost an aggregate \$200 to \$300 million in 1996.<sup>25</sup> The NHL lost over \$100 million during the 1996-97 season,

with over half of all teams losing money.<sup>26</sup> Only the NFL operated in the black in 1996, raking in over \$150 million in profits.<sup>27</sup>

A few months after Milwaukee voters rejected a lottery-funded stadium, the state legislature approved a plan to build it anyway, with \$160 million worth of public funds.



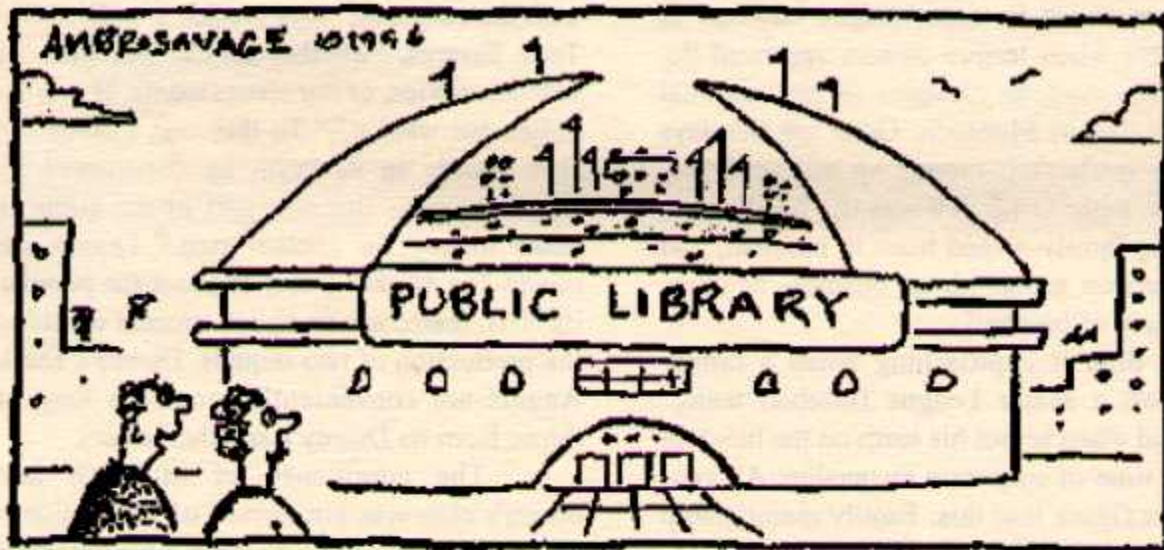


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"...ONCE WE PUT IN A RETRACTABLE ROOF, LUXURY BOXES, AND THREATENED TO MOVE THE BOOKS TO TAMPA, WE FINALLY GOT FUNDED..."

A franchise is a worthwhile financial investment only if the team consistently and considerably appreciates in value. Owners know that the one sure-fire way to ensure appreciation is to play in a new facility financed by as many taxpayer dollars as possible. Economist Mark S. Rosentraub estimates that a franchise's value can appreciate by as much as 50 percent with the promise of a new stadium.<sup>28</sup>

Owners also understand that the point is to fill the stadium with fans—the unsuspecting targets advertisers pay millions to reach. In an effort to field competitive teams to attract fans, clubs with new stadiums typically increase their payrolls significantly, expenditure made possible by the added revenues generated by the new stadium. Baltimore's Camden Yards opened in 1992 and the Orioles' payroll climbed from \$14 million in 1991 to \$63 million in 1997. Cleveland's Jacob's Field opened in 1994 and the Indians' payroll has catapulted from a league-low \$8 million in 1992 to \$59 million in 1997.<sup>29</sup>

Stadiums are by no means the sole factor responsible for skyrocketing player salaries. Free agency and additional revenues, especially from television contracts, have also contributed to the meteoric rise. Whatever the combination of causes,

the results are difficult to ignore. In this decade NHL salaries have risen by 265 percent; NBA, 155 percent; MLB, 87 percent; and the NFL, 80 percent. Salaries in baseball now consume 61 percent of total league revenues, up from 34 percent ten years ago, and eat up more than 50 percent of revenues in each of the other major sports.<sup>30</sup>

Seattle Mariners President Chuck Armstrong is well aware of the severity of the situation: "Until the industry is able to achieve some sort of mechanism where you can plan what your payroll is going to be several years out, at some point the whole thing is going to implode."<sup>31</sup>

### The Disneyfying of Sports

*"Baseball is too much of a business to be a sport, and too much of a sport to be a business."*

—Philip Wrigley<sup>32</sup>

**B**ooming player costs and dwindling profit margins have signaled a change in ownership of professional teams. "It's a pretty sad industry when 80 percent of the teams can be losing money," says Colorado Rockies owner Jerry McMorris. "That's part of what's contributing to the big turnover we've had in ownership."<sup>33</sup>



An era ended in major league baseball in March of 1997 when league owners approved the sale of the Los Angeles Dodgers to international media mogul Rupert Murdoch. Gone are the days when owners made their money by selling tickets and hot dogs. Peter O'Malley was the head of the last remaining family-owned team in baseball, and the last ownership group whose business dealings consisted solely of baseball.

"The time is approaching when a family cannot support a Major League Baseball team," O'Malley said when he put his team on the block in 1997. "It's a time of corporate ownership. All economic factors figure into this. Family membership is a dying breed."<sup>34</sup> Of the 85 teams in the NBA, NHL, and MLB, 52 are owned at least in part by a public company (the NFL outlawed corporate and community ownership in 1961).

Jerry Colangelo, the head of the ownership group of the expansion Arizona Diamondbacks, agrees with O'Malley. "Very few people can play the game anymore. It costs too much to buy in and too much to run."<sup>35</sup> Other than those very few (such as Paul Allen) for whom the purchase of a team barely dents the piggybank, the trend is increasingly toward corporate ownership.

The first company to buy into sports was Anheuser-Busch, which purchased the St. Louis Cardinals in 1953. CBS followed suit in 1964 with its acquisition of the Yankees. Both CBS and Anheuser-Busch got out of the game because of single-digit returns on profits, but not before becoming unwitting trendsetters. They foreshadowed the firms that today purchase teams in order to create a synergy between sports and their other products. To this day beer companies and media corporations provide the revenue streams most related to sports teams.

Today's corporate entrants into pro sports realize that the profits to be had from a successful team are exceedingly slim. Media conglomerates such as Murdoch's Fox group are buying teams to acquire both live-event broadcasting for their channels and the opportunity to market their teams as "brands" that can be exploited in various ways.

"Our main goal is to get people to spend their disposable income with properties associated

with the company," says president of Disney Sports Tony Tavares, "whether they're our theme parks, videos, movies, or our sports teams. If you've got a dollar, we want it."<sup>36</sup> To that end, Disney employs fifty people in its "synergy department," which identifies ways that one part of the company can make money for another part.<sup>37</sup> Disney used its movie *The Mighty Ducks* to boost the popularity of its NHL team, whose on-ice success contributed to the production of two sequels. Disney's Ducks and Angels are conveniently located a long stone's throw from its Disney Land theme park.

The admittance of Murdoch into the owner's club was not devoid of trepidation on the part of many owners who feared his extended hold on the league. Murdoch's Fox Sports Net (FSN) televises games to local audiences through its network of 20 regional cable outlets.<sup>38</sup> It competes against Disney-owned ESPN, which broadcasts games to a national audience. Murdoch is buying teams (he's also looking into purchasing the Lakers and hockey's Kings) because unlike national television rights, which are controlled by the league, local and regional rights can be sold by the owners at their discretion.<sup>39</sup>

FSN now owns at least part of the local cable rights of 22 of the 30 baseball teams plus those of 27 other professional teams and reaches 55 million homes nationwide.<sup>40</sup> If Murdoch is successful in acquiring the Kings and Lakers, he will have created a minidrama that pits Fox and its three teams against Disney's Ducks and Angels for market share and fan loyalty in the great state of California.

The media buyout of teams extends far beyond Disney and Fox—currently more than a dozen teams are owned by broadcasters nationwide. Cablevision Systems Corp., which operates cable television systems in 19 states, owns New York's Knicks and Rangers. Comcast Corporation bought the 76ers and Flyers in 1996 and promptly created its own regional sports network, buying the television rights of baseball's Phillies to round out its programming.

"It's difficult to separate where television starts and sports stop," says CBS Sports president Sean McManus. "They are so interdependent upon



**Team Values vs. New Stadium Subsidies**

Team	Year funding appropriated	Amount of public subsidy (in millions)	Franchise value (in millions) in year subsidy was approved
Baltimore Orioles	1992	\$210	team sold for \$70 in 1989
Cleveland Indians	1991	\$295, for two stadiums	\$162 combined value
Cleveland Cavaliers			
Cincinnati Bengals	1996	\$540 (projected cost) for two stadiums	\$270 combined value
Cincinnati Reds			
Milwaukee Brewers	1995	\$160-310 (projected)	\$96
St. Louis Rams	1993	\$260	\$148 (as L.A. Rams)
Seattle Mariners	1995	\$340 (projected)	\$80
Seattle Seahawks	1997	\$300 (projected)	\$171
Florida Panthers	1996	\$171	\$45
Tennessee Oilers	1996	\$220-292 (projected)	\$159 (as Houston Oilers)

the Minnesota state legislature for a state-of-the-art retractable roof stadium; the team is worth around \$100 million.

Ironically, even while the costs of stadiums are skyrocketing, their economic life spans are shrinking rapidly. Fenway Park, Yankee Stadium, Tiger

each other." Indeed, franchises are quickly becoming sitcoms and movies rather than teams, and the players transformed into highly skilled commodities—paid handsomely to boost ratings and sell advertising.

**A Crossroads: Subsidy Demands Are Exceeding Team Values**

*"I'm not comfortable [with asking for public subsidies]. But we've got that vicious cycle. There's no way you can take it away."*

—Pat Bowlen, Denver Broncos owner<sup>41</sup>

Nearly 30 urban areas with a combined total of more than 50 million residents are facing a possible relocation of their teams. Most will end up subsidizing some part, if not all, of the new stadiums, or they will likely see their teams leave.

But the situation may have reached a turning point. The demands of the owners have reached the point where they insist upon more public money from their communities than their teams are worth. This year's Super Bowl champion Denver Broncos are threatening to leave Denver—*The Sporting News'* number one-rated sports town—if the city doesn't ante up \$250 million. The team is worth \$182 million. Carl Pohlad tried to extract \$250 million from

Stadium and Soldier Field were all built prior to 1930 and are all still hosting games. These storied stadiums stand as living shrines to their sports. Contrast them to Minnesota's Metrodome, built in 1982 but declared economically obsolete by Twins and Vikings owners after only 15 years. Now the Charlotte Hornets and Miami Heat, who began play in the NBA a mere decade ago in brand new stadiums, are already clamoring for new facilities.

Increasingly, communities are wondering why they should pay several times more than the value of the team (simply to keep them local for another ten or twenty years) rather than buying the team outright. Community ownership in more and more cases has become not just the only permanent solution, but the least expensive strategy for keeping the home team at home.

**Shrinking Stadium Life Spans**

Stadium	City	Year Opened	Life Span (in years)
Fenway Park	Boston	1912	86+
Los Angeles Coliseum	Los Angeles	1923	72
Orange Bowl	Miami	1938	60+
Mile High Stadium	Denver	1948	50+*
Lambeau Field	Green Bay	1957	41+**
Fulton County Stadium	Atlanta	1966	31
Kingdome	Seattle	1977	21+***
Metrodome	Minneapolis	1982	16+*
Charlotte Coliseum	Charlotte	1988	10+*

\*owners have demanded new stadiums

\*\*team has self-financed two stadium upgrades in the last decade

\*\*\*replacement stadiums are under construction



### **Community Ownership: The Key to a Permanent Solution**

*"I have not heard any good financial reason to forbid public ownership."*

—U.S. Representative Earl Blumenauer

*"They would have to get rid of Wisconsin to move the Green Bay Packers."*

—David Letterman

If we believe that sports is more than just another business, if we believe that it serves as an important element in a community's sense of self and place, then the only permanent solution to the crisis of professional sports is to move from absentee ownership to local, community ownership. Happily, this is an organizational model with a long, successful history.

The Green Bay Packers organization is the poster child for community ownership of professional sports teams.<sup>42</sup> Football champions in 1929, 1930 and 1931 and Super Bowl I, II and XXX champions, the Packers were incorporated in 1923 as a private, nonprofit, tax-exempt organization. Article I of their bylaws states, "this association shall be a community project, intended to promote community welfare...its purposes shall be exclusively charitable." The team can move only through dissolution, in which case the shareholders receive only the original value of their shares. A board of directors, elected by the stockholders, manages the team.

This nonprofit status has been threatened only once, in 1949. The Packers needed to raise more than \$100,000 to avoid insolvency, but instead of becoming a profit-making venture the board chose to authorize 10,000 shares of common stock at \$25 a piece, 4,628 of which were issued, and dissolve the stock that had been sold in 1923. To insure that no one individual or company had too much control, each shareholder was limited to a maximum of 200 shares.

Green Bay's metropolitan area is home to fewer than 200,000 people, yet the Packers rank in the top 20 percent of all professional teams in terms of fran-

chise value.<sup>43</sup> As player salaries have continued to escalate, however, team shareholders in late 1997 decided that more revenue needed to be raised for the team to remain competitive into the future. The 10,000 shares issued in 1950 were split into 10 million shares, 400,000 of which were made available to the public at \$200 a piece. A disclaimer on the opening page of the stock offering reads: "It is virtually impossible for anyone to realize a profit on a purchase of common stock or even to recoup the amount initially paid to acquire such common stock."<sup>44</sup> Nonetheless the team raised \$24 million in five months, selling shares in all fifty states—enough to double its coffers.<sup>45</sup>

The Packers demonstrate that when a team is owned by the community, the community supports it even through dismal seasons. Games at Lambeau Field have been sold out for more than 30 consecutive seasons, even through decades of mediocrity in the '70s and '80s. Streets are literally deserted for three hours on autumn Sunday afternoons. The waiting list for season tickets is 36,000 names long for seats in a stadium that holds 60,000.<sup>46</sup> It is common for season tickets to be willed from one generation to the next and to be hotly contested in divorce proceedings.<sup>47</sup>

The Packers are the sole fan-owned franchise in the U.S., but the Canadian Football League (CFL) provides a league-wide example of community ownership that works. Three teams in the league are currently owned by their fans: the Saskatchewan Rough Riders, who have been community owned since 1910; the Winnipeg Blue Bombers, since 1930; and the Edmonton Eskimos, since 1948. A fourth team, the Calgary Stampeders, in November of 1997 filed a preliminary prospectus for an initial stock offering of 2.5 million shares at \$1 apiece. If approved, the Stampeders will become the first publicly traded professional team in Canada.<sup>48</sup>

Long playing in the shadow of its bigger brother, the National Football League,

the CFL has been floundering financially for years. In 1996, the league revoked the 120-year-old Ottawa

**The Green Bay Packers organization is the poster child for community ownership of professional sports teams.**



Rough Riders franchise from absentee owner Horn Chen, a Chicago businessman. That same year, the league spent nearly \$4 million to keep three teams afloat: Ottawa, the Montreal Alouettes and the B.C. Lions, who play in Vancouver.<sup>49</sup> All three were poorly managed, privately owned teams, playing in some of the largest markets in the country. The majority of that \$4 million, interestingly, came from the coffers of the community-owned teams, who vowed at the end of the season not to spend another dime propping up what they perceived as spendthrift, inept private clubs.<sup>50</sup> The very next year Ottawa's franchise went under.

### Minor League Examples

*"We must find a way to generate more revenue without new stadiums and relocation. New stadiums and [franchise] movement aren't usually the only answers. If all you have is a hammer, everything you look at starts to look like a nail."*

—Mike Moore, president, National Association of Professional Baseball Leagues<sup>51</sup>

**T**he minor leagues provide further models of community ownership that works. No fewer than seven minor league clubs are owned by their communities, including the Toledo Mud Hens, famed favorites of *M\*A\*S\*H* character Corporal Klinger. The Mud Hens are governed by a county-owned nonprofit organization, but other clubs are publicly traded, for-profit corporations. The Wisconsin Timber Rattlers are the one minor league team modeled after the Green Bay Packers, a nonprofit owned by shareholders of commemorative stock.

A comparison between the major and minor leagues is becoming increasingly valid as their discrepancies in scale increasingly narrow. Support for the minors slumped in the '60s, but has rebounded thanks in large part to the strikes and escalating ticket prices that have alienated many big-league fans. Last year 64 million fans attended major league games; 34 million attended minor league contests, the highest total since 1949.<sup>52</sup>

Minor league owners have taken a page out of the majors' handbook and begun to threaten their cities and counties with relocation.

As the minor leagues increase in popularity, so does their revenue potential. The minors are no longer a quirky sideshow to the big leagues—they are a legitimate business. Between the 1996 and 1997 seasons, overall gross revenues increased by 5 percent, operating income went up 6 percent and net income climbed 20 percent.<sup>53</sup>

To maximize their revenues owners have steadily increased the capacity of minor league stadiums, ironically at the same time that smaller ballparks have become the vogue in the majors. The Louisville Redbirds' new stadium will seat 12,000; Buffalo's ballpark seats over 20,000. The new breed of major league stadiums, in comparison, boast average capacities in the low 40,000s. To obtain new facilities, minor league owners have taken a page out of the majors' handbook and begun to threaten their cities and counties with relocation.

This process has been encouraged by MLB. Under the auspices of the Professional Baseball Agreement (PBA), which was forced on minor league teams in 1990, stadiums had to meet certain arbitrary requirements by 1995. Some were necessary standards, such as sufficient padding for fences, but others, including the number of urinals in restrooms, were not even met by some major league ballparks. Since most facilities are county- or municipality-owned, the burden of upgrading stadiums falls primarily on taxpayers.<sup>54</sup>

With the recent popularity boom of minor league baseball, the dismal game of franchise musical chairs is now spreading to even more cities. Officials realize that if they don't finance a new stadium or a facility overhaul, another community will. "The major league teams' primary objective is to get the best facilities for their players," says Arthur Johnson, author of *Minor League Baseball and Local Economic Development*. "They don't have any interest in the welfare of the small communities. They know other cities want them." Indeed they do: more than 60 minor league teams have relocated in the last decade.<sup>55</sup>



Just as NFL fans from Los Angeles, Houston and Cleveland have looked with envy at the rooted ownership of the Green Bay Packers, minor league fans are now turning toward Toledo, Rochester, and Appleton, Wisconsin, for models of fan and public ownership that root teams to their communities.

### **The Fan Ownership Football League (FOFL)**

*"It doesn't take a genius to figure out that with 40,000 owners, there is no way a team will move to Baltimore."*

—David Dixon<sup>56</sup>

Many economists insist that the only way to curb the public dollars being thrown at professional sports is through competition, either by creating rival leagues or by splitting up the existing leagues (which would be a tall political task). As Stephen F. Ross of the University of Illinois argues, "By restoring competition, the exploitation of taxpayers would cease. The NFL wouldn't think of abandoning Los Angeles or Cleveland because [a competing league] would move right in."<sup>57</sup>

The United States Football League (USFL), founded in 1983 by David Dixon, was the last attempt at restoring interleague competition to sports. In its three-year existence, teams were bought and sold an astonishing 27 times. The league formally disbanded in 1985 after the resolution of its lawsuit against the NFL's alleged antitrust violations. The \$1 in damages awarded the USFL etched forever its place in history as the "\$1 league."<sup>58</sup>

In the midst of the fallout in 1985, Dixon proposed creating out of the USFL's ashes a wholly different league with an innovative structure: one corporation (the new league) with 12 fan-owned subsidiaries. It went nowhere in the '80s amidst the backlash against the USFL, but has been resurrected in the form of the Fan Ownership Football League (FOFL).

Frank Dixon, son and partner of David Dixon, says that the FOFL has lined up initial ownership groups in 14 cities, who when the league is launched will have two to three years to sell up to

70 percent of their ownership stake to the fans in the form of publicly traded, \$12-\$25 shares of stock. When television coverage is lined up, the FOFL plans to begin play.<sup>59</sup>

The Dixons believe the FOFL will succeed where the USFL didn't because the league will have absolute control over its finances—something the NFL can't even boast. Dixon claims that since the league will be constructed as a single entity, it will be "impossible for a team to get into financial trouble. The stockholders will have complete control, so a maverick owner such as a Jerry Jones or Donald Trump cannot ruin the league."<sup>60</sup>

It's widely accepted that the USFL collapsed because of owners who wanted the USFL to expand too quickly and because of Trump's demand that the league play a fall season and compete directly against the NFL. No one owner will have that kind of leverage in the FOFL because team operating budgets would be identical and would all come directly from league headquarters.

### **League Rules**

*"The owners make the rules, and they can change the rules."*

—An anonymous former member of the NFL Owners Council<sup>61</sup>

Community ownership may be the solution to the footloose nature of modern professional sports, but achieving it requires overcoming a mountain of an obstacle: professional sports leagues' outlawing of that option.

The NFL formally banned community ownership in 1961. Indeed, so threatened is the NFL by this prospect that it comes as no surprise that in the last two Super Bowls, while the announcers talked about everything else in any way related to the competing teams—from the personal lives of the players to the history and climate of the hometowns—they refrained from ever bringing to their viewers' attention one of the most interesting and important facts of all: the organizational form of the Green Bay Packers, contenders in both games.

MLB also prohibits fan ownership, albeit through a more informal policy. In the 1980s, when Joan Kroc, widow of McDonald's founder Ray



Kroc, offered to donate the Padres to San Diego along with \$100 million to cover operating expenses, the owners nixed the idea. Baseball's current acting commissioner Bud Selig, who as Milwaukee Brewers owner coerced Wisconsinites into building him a new stadium, has vowed to kill any community ownership proposal because such a structure would be "awkward."<sup>62</sup>

Despite the formal and behind-the-scenes efforts of owners, community ownership is attracting increasing interest. Some preliminary steps have already been taken. In 1995, Kansas City Royals owner Ewing Kauffman donated baseball's Royals to charity with two conditions: the foundation had to sell the team to someone who would commit to keeping the team in Kansas City, and the proceeds from the sale had to go to local charities. The IRS approved the donation. While this arrangement does not call for community ownership, it does root the team permanently to the city (assuming a local buyer comes forward).

In Minnesota, Twins owner Carl Pohlad has offered as part of a deal for a new publicly financed ball park to donate the club to a local foundation (as long as his accumulated losses of around \$85 million are covered). Seeing this as an invitation to community ownership, several legislators have introduced a bill that would have the state buy the team and sell a majority share to the fans.

The Minnesota bill (see Appendix A) would give the state a year to sell a 75 percent stake to the fans. If the fans were unwilling, the team would go back on the market. This is a palatable blending of conservative and liberal approaches. The liberal says that we can exercise our rights as citizens to collectively buy the team. The conservative says that those who want the team to stay should be the ones who pay for it. Thus if the fans prove unwilling to put their money where their cheers are, the team goes back on the market.

History indicates that fans are willing to pay top dollar for the home team. The Boston Celtics went public in 1986 as a rare "pure play"

limited partnership, meaning the team made up essentially all of its parent corporation's holdings.<sup>63</sup> Shares in the Celtics were grossly overvalued at \$18.50, did not grant voting rights, and lacked even the endorsement of star player Larry Bird, who deemed it "not a good investment."<sup>64</sup> Still, 2.6 million shares, a 40 percent interest in the team, were sold in one day, raising \$48 million dollars—more than triple the \$15 million the team's owners paid only three years earlier. Celtics shares are trading today for only around \$20, but have paid out more than \$16 dollars in dividends since 1988. This comes to a healthy 10 percent annual return on their investment.

Community ownership structures have proven successful, but are still illegal in most professional leagues. A bill introduced in Congress by Rep. Earl Blumenauer of Oregon would

change that. The Give Fans a Chance Act of 1997 (HR 590) would override all league rules against public ownership. If a league refused to allow a community to purchase its team, this bill would provide that the league would lose its sports broadcast antitrust exemption. HR 590 also requires that leagues, when considering whether to allow teams to relocate, must take into account such criteria as fan loyalty and whether a bona fide investor exists who is willing to keep the franchise in its home community. If enacted, Blumenauer's bill would give fans the opportunity to give the home team genuine roots.

### Revenue Sharing

*"We're a bunch of capitalists running a socialist league."*

—Art Modell, owner of the Baltimore Ravens<sup>65</sup>

Community ownership is a necessary but insufficient remedy for the disease currently afflicting professional sports. Despite their fan support, the Green Bay Packers would have died long ago if not for the NFL's revenue sharing policy, which has arguably made it the most competitive and popular of all the professional leagues,

## The Give Fans a Chance Act of 1997 would override the league rules that make community ownership illegal.



### Success of highest- and lowest-spending teams in the 1997 MLB and NHL seasons<sup>66</sup>

#### MAJOR LEAGUE BASEBALL

Team	Payroll (in millions)	Wins	Playoffs?
N.Y. Yankees	65	96	Y
Baltimore Orioles	63	98	Y
Cleveland Indians	59	86	Y
Florida Marlins	54	92	Y
Atlanta Braves	52	101	Y
Pittsburgh Pirates	12	79	N
Oakland A's	14	65	N
Detroit Tigers	16	79	N
Montreal Expos	18	78	N
Milwaukee Brewers	27	78	N

#### NATIONAL HOCKEY LEAGUE

Team	Payroll (in millions)	Points	Playoffs?
N.Y. Rangers	38	86	Y
Pittsburgh Penguins	34	84	Y
St. Louis Blues	29	83	Y
Detroit Red Wings	28.5	94	Y
Vancouver Canucks	27	77	N
N.Y. Islanders	15	70	N
Anaheim Ducks	16.2	85	Y
Edmonton Oilers	18.5	81	Y
Ottawa Senators	18.5	77	Y
Tampa Bay Lightning	19	74	N

as witnessed by the \$17.6 billion TV contract won by the league in 1998.

Because stadium revenue from luxury suites and other sources are not included in the NFL's revenue sharing agreement, however, disparities have emerged between teams' revenues and their payrolls. The Dallas Cowboys, courtesy of skybox-laden Texas Stadium, doled out over \$62 million in salaries in 1995, \$14 million more than its nearest competitor, and enough to ensure a Super Bowl victory.<sup>67</sup>

With the exception of the Cowboys, however, the other 29 teams feature payrolls within \$15 million of one another. In the 1995-96 season, the Pittsburgh Steelers made it to the Super Bowl with the only the 21st largest payroll in the league, while the Green Bay Packers made it to the NFC Championship with the second-smallest payroll. The next season, the Packers won the Super Bowl with the fifth smallest payroll.<sup>68</sup>

Baseball and increasingly basketball and hockey, on the other hand, are tied to the fortunes of their owners, the size of their local media contracts, and the revenue generating capacity of their stadiums. The four teams who played in the 1997 baseball league championship series were all in the top five in payroll; none of the nine teams with payrolls under \$32 million finished with a winning record.<sup>69</sup> In the NHL, the four playoff finalists in 1997 were all ranked in the top eight in total payrolls. The Chicago Bulls' payroll has been easily the largest in the league two years running—they won championships in both those seasons. As the same well-positioned teams continue to win while the small market clubs flounder in division cellars, the fan bases of the leagues will erode away, taking with them the leagues' financial vitality.

Baseball, basketball and hockey have all made token advances toward revenue sharing. MLB has imposed a luxury tax on the five highest-spending teams, taxing at 35 percent all payroll over a certain amount. The money collected is then distributed among the small-market clubs. In an effort to keep its small market Canadian teams above water, the NHL has begun a Canadian Assistance Plan through which a maximum of \$5 million annually is redirected from rich American teams to struggling Canadian franchises in Calgary, Edmonton and Ottawa.<sup>70</sup> The NBA, like the NFL, has a salary cap, an attempt to curb the free-spending tendencies of wealthy teams.

None of these rules provide the equalizing force that revenue sharing gives the NFL. We need to extend this plan to the other professional leagues to ensure parity, the vitality of small-market teams, and nationwide fan support.

But large-market owners are viscerally hostile to such changes. When asked about the luxury tax he must pay the league, Yankees owner George Steinbrenner acknowledged the league's role in stabilizing the small-market teams. "But," he added, "[revenue sharing] can't be something that goes on and on forever. Then perhaps we should move the game to Russia."<sup>71</sup>



### Guaranteeing a Replacement Team

*"At one time, professional sports teams were an integral part of the fabric of the community in which they resided. Today they are more like financial assets for sale to the highest bidder."*

—Former Ohio Rep. Martin Hoke<sup>72</sup>

Revenue sharing by itself, however, hasn't put a stop to franchise free-agency; the NFL has actually experienced the most team relocations in the past decade, precisely because its revenue sharing policy allows cities that otherwise would be too small to compete for teams. One reason for this is that revenues from corporate suites, club seats and other stadium sources are excluded from the revenue sharing arrangement. This encourages owners to demand new stadiums with bigger and more abundant skyboxes. The most obvious and painful example of this problem occurred when the Browns moved to Baltimore in 1995, despite average game attendance of over 70,000, the highest TV ratings in the NFL, and Cleveland's 72 percent approval of a \$175 million tax increase to rehab Memorial Stadium so that the team would stay.

Cleveland Mayor Michael White and Ohio federal legislators passionately defended their citizens' right to keep the Browns in the wake of the move, and while they didn't persuade Congress or the NFL to block the move, they did extract a compromise. Cleveland, as a community, retained the Browns name, and the league promised that within three years the city would be granted an expansion team.

But the compromise didn't come without a steep price—the new franchise was contingent on Cleveland constructing a new stadium. The \$175 million that Cleveland voters had already approved to rehab Memorial Stadium was applied toward the cost of a new stadium, with the NFL agreeing to bridge a portion of the gap between the \$175 million and the cost of the new stadium.

Revenues from corporate suites, club seats and other stadium sources are excluded from the NFL's revenue sharing agreement, which encourages owners to demand new stadiums with more and bigger skyboxes.

Ohio Representative Martin Hoke tried making the compromise league policy when he introduced his Fan Freedom and Community Protection Act. This bill said that if any team relocated, the league must grant the abandoned city an expansion team within three years, provided the city has found a qualified investor. The NFL hated the proposal and lobbied hard against it, calling it "government mandated expansion."<sup>73</sup>

A Cleveland model offers the freedom to move while at the same time penalizing the entire league for allowing such a move. If for example Los Angeles and Cleveland were granted expansion franchises when their teams left, the two-team increase would reduce the revenue stream guaranteed each team and in turn

each team's value. Thus, by moving their teams to increase short term revenue, the owners of the Rams and Browns would have decreased the average values of NFL teams in the long run. Owners would therefore have to weigh the short-term advantages of relocation against the long-

term financial advantages of league stability.

The Cleveland compromise, minus the stadium requirement, should be the third element in a comprehensive solution to the professional sports problem. It's a compromise that, together with the possibility of community ownership and the guarantee of revenue sharing, would finally acknowledge and protect the rights of fans and communities, while at the same time protecting the right of owners to move and appreciate their asset.

### The Time To Act Is Now

Professional teams have become an integral part of our community fabric, of our emotional and civic lives. To some communities this feeling may be strong enough to justify stadium subsidies. But common sense dictates that when an owner demands a subsidy two to three



times the value of the team itself, fans would be much better served, both financially and emotionally, to purchase the teams themselves rather than build stadiums that could be deserted after a few years.

Professional sports may very well be in their death spiral. As stadiums speedily go up, so do team values, player salaries and ticket prices. Fans consequently can't afford to attend games, and will continue their emigration away from stadium seats and TV sets. We may be quickly running out of time to intervene. For fans and communities to reclaim their teams, they need to rewrite the rules of ownership in such a way that gives priority to the civic value of teams—it may be the only way to prevent the leagues from economically destroying themselves.

Community ownership, revenue sharing, name retention and guaranteed replacement teams are the elements that can allow us and our children to once again root, root, root for a team that is truly rooted.

*David Morris is vice-president of the Washington D.C.- and Minneapolis-based Institute for Local Self-Reliance. Daniel Kraker is a writer and researcher with the Institute's New Rules Project.*



# Appendix A

## Federal action: a summary of the Give Fans a Chance Act (HR 590)

The Give Fans a Chance Act was introduced in early 1997 by Representative Earl Blumenauer of Oregon. Its intent is both to give communities the opportunity to purchase their teams and to give them a say in proposed team relocations. It's especially significant because Blumenauer hails from Portland, a city not attempting to lure a team or prevent one from leaving. Past congressional action on behalf of communities, all of which failed, was often considered reactionary and parochial.

### **Section 1: Statement of Purpose**

The purpose of this act is to give communities the tools to invest in their own livability by allowing them to purchase their home sports team.

### **Section 2: Allow Public Ownership of Teams**

*Description:* No professional sports league (football, baseball, hockey, or basketball) may have a rule, policy, or agreement that forbids any public ownership of teams, either by the general public or by any governmental entity.

*Penalty:* If the league ignores this provision, it will lose its sports broadcast antitrust exemption. The antitrust exemption allows teams to collaborate to sell broadcast rights, thus increasing their value dramatically.

*Expected impact:* The NFL is the only league that has specific rules forbidding public ownership of sports teams (NFL Ownership Policies para. 2), but this would affect informal prohibition as well. The NFL earned \$1.2 billion as a result of the sports broadcast antitrust exemption in the 1995-1996 season.

### **Section 3: Relocation of Teams**

*Purpose:* To require teams to consider the needs and interests of their communities in making relocation decisions.

*Description:* Requires a professional sports league, in considering whether to approve or disapprove the relocation of a member team, to take into consideration several criteria:

- fan loyalty;
- the degree to which the team has engaged in good faith negotiations concerning terms and conditions under which the teams would continue to play its games in the home territory;
- the degree to which ownership of management of the team has contributed to a need to relocate;
- the extent to which the team benefits from public financing, either federal, state or local;
- the adequacy of the stadium in which the team played its home games in the previous season and the willingness of the community to make changes;
- the current financial standing of the team;
- whether there is another team in either the home community or the community to which the team will seek to locate;
- whether the community is opposed to the relocation; and
- whether there is a bona fide investor offering fair market value to purchase the team and keep it in the home community.

*Expected Impact:* All of the sports leagues will be expected to use these criteria in evaluating the movement of member teams. These criteria closely track current NFL policies under Section 4.3 of the Constitution and By-Laws (adopted in 1984). Case law since the adoption of these policies suggest that



these criteria help bolster the NFL's ability to evaluate franchise moves without running afoul of antitrust law.

**Section 4: Opportunities for Communities to Purchase Teams**

*Purpose:* To give communities a real opportunity to purchase their team.

*Description:* This section requires that a team proposing to relocate give the affected home territory 180 days notice of the proposed move. During the 180 day notice period, a local government, stadium, arena authority, person, or any combination may present a proposal to retain the team in the home territory. The local community may also develop a proposal to induce the team to stay without actually purchasing the team. As noted under section 3, both the team and the league are

required to carefully consider any proposals and, if any ownership bid is successful, the league may not oppose membership in the league based on the new ownership structure. The team owner must provide a written response to the offer, stating in detail any reasons why the offer was refused.

*Penalty:* If the team and/or league refuse to abide by these provisions, they will lose the antitrust exemption under the Sports Broadcasting Act.

*Expected Impact:* All sports leagues will be required to give communities an opportunity to purchase a home team in the case of proposed relocations.

For the full text of this bill, see the following website:  
[http://thomas.loc.gov/cgi-bin/query/z?c105:H.R.590:](http://thomas.loc.gov/cgi-bin/query/z?c105:H.R.590)



# Appendix B

## State action: a summary of Minnesota's community ownership legislation

Minnesota House File 3348 was originally introduced by State Rep. Phyllis Kahn in February 1998. It was authored specifically to root the Twins to Minnesota or to provide a framework for the state to acquire a new team if the Twins left, but was written in such a way that it can easily be used by other states facing a situation similar to Minnesota's. A summary of the legislation follows; Minnesota-specific text has been bracketed.

### **Section 1: State Legislative Findings**

The legislature has determined that: (1) a professional baseball franchise is an important asset to the state of [Minnesota], both in terms of the economy and the quality of life; (2) ensuring that a professional baseball franchise is in [Minnesota] is an important public purpose; (3) providing community ownership of a professional [baseball] franchise helps ensure that this important asset will remain in the state; (4) providing community ownership of a professional [baseball] franchise develops trust among fans, taxpayers, and the team, so that the team enjoys popular support; (5) providing community ownership of a professional [baseball] franchise ensures that the financial benefits of any increased value of the franchise will accrue to those who pay the costs.

### **Section 2: Acquisition of Teams**

*Purpose:* To allow the governor and the [metropolitan sports facilities commission] to purchase the [Minnesota Twins].

*Description:* Authorizes the governor to (1) use funds in the budget reserve and cash flow accounts to make a loan to a community foundation to acquire the [Twins]; (2) work with a professional sports franchise and a community foundation to

develop a plan to offer shares of the franchise to the general public; (3) assist the community organization in seeking gifts to be used to acquire the professional sports franchise.

The governor may use state money to purchase the team only if there is a binding agreement with a community organization assuring that the following conditions will be met:

- A private managing partner must own no more than 25 percent of the full voting shares of the franchise, and must agree to be responsible for all operating losses.
- Aside from the managing partner, no one may own more than 5 percent of the shares, and at least 50 percent of the stock must be sold to shareholders such that no one owns more than 1 percent of the franchise.
- Shareholders can vote only on proposed relocations of the franchise.
- The team will not move outside the state without approval of 80 percent of shareholders. This requirement may not be amended by shareholders or by any other means.
- Revenue from the stock sale must be used to repay the loan from the state.
- If 75 percent of stock is not sold to the public within one year of the state's purchase, the community organization must have the right to sell the franchise.

### **Section 3: Stadium Financing**

No state funds may be used to construct a new stadium until the above conditions are met.

For the full text of this bill, see the following website:  
[www.revisor.leg.state.mn.us/cgi-bin/bldbill.pl?bill=H3348.O&session=1s80](http://www.revisor.leg.state.mn.us/cgi-bin/bldbill.pl?bill=H3348.O&session=1s80)



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The New Rules Project articulates and promotes rules that encourage economically rooted, politically vibrant, environmentally healthy communities. The New Rules Project is a program of the Institute for Local Self-Reliance.

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[www.ilsr.org](http://www.ilsr.org)

Midwest Office  
1313 5th St SE  
Minneapolis, MN 55414  
612-379-3815

