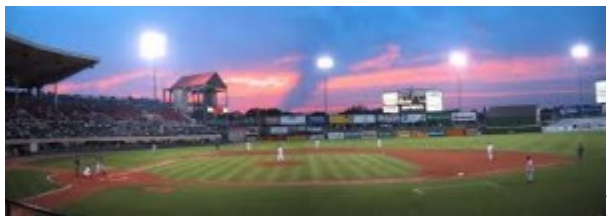


Opinion: Questions Surround the PawSox Sale



Ben Mondor, after buying the franchise out of bankruptcy in 1977, turned the Pawtucket Red Sox into a national model of how to run a successful, fan-friendly, family-friendly, and *profitable* minor-league baseball team. Until his death in 2010, Mondor defined the beloved institution that became, arguably, Rhode Island's premier professional sports organization. On February 23, it was announced that a consortium of partners, including its parent major-league Boston Red Sox organization, bought the PawSox from its prior owners, including Mondor's widow, and planned to find a new playing venue outside the City of Pawtucket.

The news stunned fans who have come to see McCoy Stadium in Pawtucket as part of the experience. Built in 1940 with about half of its current capacity, it pre-dates the 1950s architectural preference for generic multipurpose athletic and entertainment facilities instead of baseball-only parks, a trend that dominated into the 1990s. McCoy is small, with a capacity of 10,000, but typical of the rest of the AAA-level International League in which the PawSox play: of the 14 league members, 8 play in parks with capacity between 10,000 and 10,500. By contrast, major-league baseball venues seat between 35,000 (Oakland) and 56,000 (Los Angeles).

Whatever its shortcomings, not least its age and location some distance off the Interstate highway and surrounded by unbuildable swampland, city-owned McCoy Stadium has one indisputable advantage: it's already paid for. Nor is it in disrepair, with significant renovations in the late 1990s and early 2000s financed by rounds of government bonds that totaled around \$15 million. There is abundant free parking.

The new owners have told anyone who will listen that they want to move the team to Providence, building a new "destination stadium" on land condemned by the state because of the I-195 highway relocation project. Various sources have cited a combined cost of about \$100 million, of which \$60 million would be new construction and \$40 million would be land, each part raising separate questions. According to numerous reports, the expectation is that construction would be privately financed while the land would be subject to some as-yet-undetermined public subsidy.

There is no doubt that \$60 million of construction is not justified by baseball alone. Valuing a professional sports franchise is incredibly difficult, because often prices are driven more by owner ego and intangible fan goodwill than by any rational accounting measure. The PawSox are a private business and do not disclose their financial information, but *The Boston Globe* estimated the sales price for the team at \$20 million, which seems about right. The forced sale last year of the National Basketball Association Los Angeles Clippers was reportedly at a price of \$2 billion, but that's a very different world where tickets sell for many times the cost of minor-league baseball, much of the revenue derives from television rights, and the hometown is the nation's second-largest metropolitan area with a population of 13.1 million. The Providence metropolitan area, which includes parts of nearby Massachusetts, is the nation's 38th largest with a population of 1.6 million.

Without access to the PawSox financials, it is possible to do some quick “back of the envelope” calculations. Most income comes from ticket sales. If the PawSox sold out all 10,000 seats in 70 games per season at an average ticket price of \$10 per seat, that would generate about \$7 million per year. Selling out every seat at every game is unrealistic, but this establishes an upper limit. If every attendee also bought \$10 worth of food and beer, that would add another \$7 million. (Since we’re making unjustified assumptions, anyway, we might as well keep the math simple.) Advertising isn’t much, probably all together under \$100,000 per year; even the principal naming rights on a major-league stadium are only worth around \$50,000 per year. Adding in a few extras, such as luxury boxes and special events, this establishes an upper bound of about \$15 million in annual gross revenue under the most optimistic possible scenario; in all likelihood, it’s probably actually closer to half that.

But that is gross revenue, from which operating expenses, including everything from payroll to cost of goods for resale, must be deducted. Employees cost money, as do the hot dogs and beer being sold. If we assume that the PawSox are a well-administered and tightly run business with good internal controls, they might be able to keep expenses down to about 80% of gross, leaving 20% as net profit – which is still only about \$3 million per year under the optimistic scenario. A more realistic guess would be half that, and it would not be surprising to learn that the PawSox are operating close to break-even. The revenue potential is what is technically called “inelastic,” because doubling prices for tickets and concessions, for example, would probably depress sales and result in a net negative result.

Although \$3 million per year in profit may seem like a large number, and it is a pretty healthy chunk of change for what is essentially a locally controlled small business, it does not justify constructing a \$60 million stadium. Anyone willing to make that sort of capital investment is expecting revenue well beyond baseball. The typical claim is that a new stadium would be a catalyst for development, drawing additional new construction for shopping malls, hotels, entertainment venues and urban businesses. The problem with that model in Providence is that this already happened a short distance away. Just as the opening of the Providence Place Mall cannibalized the malls in Warwick, driving the Rhode Island Mall into closure, any new shopping mall would compete with the Providence Place Mall and any new entertainment arena would compete with the Civic Center/Dunkin Donuts Center.

So what justifies a \$60 million construction project at the proposed location? Once the traditional urban renaissance businesses are ruled out, the only kind of business not already in Downtown Providence with the potential to generate enough revenue, at least that I can think of, would be a gambling casino. I have no evidence that this is what is intended by anyone, but the numbers really don’t work in any other way that I can see. Could Providence support two adjacent shopping malls and two adjacent indoor arenas at the same time? Or will the end result be to do to Twin River what was done to the Rhode Island Mall?

Originally, the plan was to use the I-195 relocation project land for office complexes, establishing a “knowledge district” in co-operation with Brown University and its medical school, the Rhode Island School of Design, Johnson and Wales University, and other entities who already have a strong presence in that area. The state floated almost \$40 million in bonds to buy that land via eminent domain from property owners, expecting to repay those bonds from proceeds of selling the land to private developers to create the knowledge district.

Eminent domain, the power of the government to condemn private land and take it from property owners for public purposes, is a hotly contested political issue today. The *Takings Clauses* in both the federal and state constitutions afford protection against government abuse, requiring that the taking be

for “public use” and that the owner be given “just compensation,” terms that have led to numerous court disputes. In 2006, the United States Supreme Court decided that the town of New London, Conn., could involuntarily take land from one private owner and transfer it to another private owner to further a redevelopment plan that would result in higher property taxes. That ruling sparked massive outrage leading to a national reform effort, with several states prohibiting such practices by legislative or judicial action. In the end, the New London redevelopment plan fell through, leaving the land vacant after most of the buildings on it had already been knocked down, and it ended up becoming, quite literally, a dump - further fueling political outrage.

While the Providence land was originally condemned for a highway project, its value was appraised subject to the plan for eventual use as part of the knowledge district. Although the general rule is that “just compensation” in the context of eminent domain is based upon the fair market value at the time of the taking and does not consider future uses that are purely speculative, this is not an absolute rule and there are exceptions where it would work an injustice. If the original owners of the land sued the state claiming that, had their land not been taken involuntarily then the construction of a “destination stadium” might have greatly increased its value, they might well have a case. Even if that is an uphill legal battle in the face of precedents dating to the 1930s, the mere filing of a suit would have two guaranteed effects: First, the state would be exposed to potentially enormous liability that could plausibly reach several times the \$40 million actually paid for the land, and, second, the assertion of such an argument citing the constitutional *Takings Clauses* would instantly raise the court case to national political significance. And, of course, the state might lose.

How - or even if - the state plans to make the I-195 land available for a new stadium is unclear. According to press reports, the new owners of the PawSox have not actually asked for it and the elected officials of the state say they have not yet been asked for it. If the proposal involves the state providing the land at no cost, sticking the taxpayers with the \$40 million bond cost if the land is not sold as planned, that would seem a political and financial impossibility.

Official projections are that the Rhode Island state government will spend \$151.1 million more than it takes in during the fiscal year ending in 2016 and \$256.7 million more than it takes in during the fiscal year ending in 2017. The political climate has been thoroughly poisoned by the 38 Studios collapse into bankruptcy in 2012 that may or may not have left the taxpayers holding the bag for at least \$75 million of loan guarantees.

Ultimately, the fiscal realities of today make any sizable public subsidy of a sports stadium unlikely in the way it might have been done in the past. The Buffalo Bisons, the AAA-level competitors of the PawSox, play in the largest park in the International League with a capacity of over 18,000; it was built in the 1980s at a reported cost of \$42 million, of which the State of New York kicked in \$22 million and various city, county and other public contributors paid for the rest. It is widely acclaimed as a beautiful venue and was, in fact, the prototype for Camden Yards, the home of the Baltimore Orioles, by the same designer.

While the PawSox are as archetypically American as baseball, motherhood and apple pie, devoted fans have to recognize that their deep emotional loyalty is to a private business. If the PawSox decide to leave Pawtucket for what they see as greener pastures, there is not much that anyone can do to stop them. I fear the team will inevitably raise the threat of moving to another state if the Providence stadium does not materialize. Whether to publicly subsidize the project and to what extent are decisions that must be made with cold rationality and in light of hard numbers with full transparency and

disclosure. We cannot afford another 38 Studios deal cooked up in back rooms and railroaded through without due diligence.

Teams of the AAA-level International League and their venues:

https://en.wikipedia.org/wiki/International_League

Playing venues of major-league baseball teams:

https://en.wikipedia.org/wiki/List_of_Major_League_Baseball_stadiums

Landmark Supreme Court case on the constitutional *Takings Clause*:

https://en.wikipedia.org/wiki/Kelo_v._City_of_New_London

“Pawtucket Red Sox sold; group eyes Providence” by Alex Speier, *Boston Globe*, Feb 23:

<http://www.bostonglobe.com/sports/2015/02/23/mayor-says-pawtucket-red-sox-will-move/cNerQbMyPuHxu2tk9EaqfL/story.html>

“Mixed scorecard for ballpark economics” by Paul Grimaldi, *Providence Journal*, Feb 28:

<http://www.providencejournal.com/article/20150228/NEWS/150229285/14070>

“It’s the Economy, Stupid!” by Michael Bilow, *Motif*, Aug 6:

<https://motifri.com/its-the-economy-stupid-bilow-issues-edited/>