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This week in LWIB, updates on ballpark villages, the amateur draft, mid-season attendance and live “in-market” streaming.

BALLPARK VILLAGES UPDATE

LWIB, MLB staged a very successful five days of events in St. Louis centered around the All-Star Game. While the response (both in numbers and level of enthusiasm) resulted in much deserved praise for St. Louis, the All-Star game also focused renewed attention on the failure and impacts of the stalled “ Ballpark Village ” development that was to accompany the new Busch Stadium.

Prior to the All-Star Game, a large vacant lot immediately beside the new Busch Stadium was converted to a softball field and parking lot which were also used as All-Star Game “Fan Fest” sites. That lot is (was?) expected to be part of a “mixed use” development that had been promised by advocates of the new Busch Stadium. LWIB, Tom Van Riper reported for Forbes:

Fans pouring into St. Louis for the July 14 baseball All-Star Game will get to experience a beautiful three-year-old ballpark loaded with amenities. What they won't get to experience is Ballpark Village, the ambitious mixed-use redevelopment project of shops, restaurants and condos adjacent to the park, that hasn't gotten off the ground.

The village project and its expected boon to the local economy was a big selling point for the new Busch Stadium, opened in 2006 at a cost of $370 million. But it's been derailed by the bum economy, leaving an open pit next to the park (the Cardinals will temporarily dress it up and use *the space for Fan Fest activities during the All Star break). The team is on the hook for 85% to 90% of the cost, including about $200 million in private bonds. The Cardinals carry $17 million in annual debt service, from which there is no help from previously expected revenue from Ballpark Village. The plan called for the team to pay for about two-thirds of the proposed $646 million project.*

Are the debt servicing demands of the new Busch Stadium, combined with the failure so far to generate revenue from the planned accompanying real estate development, impacting upon the Cardinals baseball operations? Mr. Van Riper notes that "..*the Cardinals' estimated $195 million in annual revenue ranks eighth in the majors, while their $77.6 million payroll ranks 17th).* The Cardinals announced earlier this year that they were abandoning plans to purchase their AAA Memphis affiliate due to concerns about existing debt. Jim Masilak reported in January:

Citing turmoil in the economy and concern over future revenue projections and debt obligations, the St. Louis Cardinals have withdrawn a letter of intent to buy the Memphis Redbirds, officials with the Triple-A club said Tuesday.

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Already saddled with significant debt after financing most of $365 million Busch Stadium, which opened in 2006, the Cardinals decided they could not take on the Redbirds as well.

The difficulties faced by St. Louis in constructing their Ballpark Village are not unique amongst MLB clubs. Earlier this year, A's owner Lewis Wolff scrapped his proposed baseball stadium/mixed use development in Fremont. A smaller, but similar development adjacent to AT&T Park is stalled. The Lerner family (billionaire Washington real-estate developers) have yet to capitalize on the real-estate play that they foresaw would accompany the opening of Nationals Park. Mr. Van Riper also notes that Rangers owner Tom Hicks has stalled in his efforts to construct "Glorypark".

Down in Texas, the NFL's Dallas Cowboys and MLB's Texas Rangers are dragging their feet on *a massive redevelopment project designed to overhaul the area around the Cowboys' new $1.1 billion stadium. Billed as Glorypark, the plan was to turn 1.2 million acres housing a bunch of motels and auto dealerships into an upscale playground of shops, restaurants and scenic walkways. Rangers' owner Tom Hicks, whose holding company has defaulted on some debt, has no apparent deadline for breaking ground on the project.*

Stadium/mixed use developments are not new to American cities but the ability of clubs and governments to complete these developments has been greatly compromised by the credit crisis and recession. LWIB, Adam Allington reported for American Public Media.

A $600 million retail and office development, the project's been touted as the best hope to bring people back to downtown St. Louis. Ballpark Village hit a snag last year when its biggest tenant backed out. Then the bond market collapsed, leaving the city and the Cardinals scrambling for a new source of funding.

Mr. Van Riper also explains how franchises with heavily leveraged real estate plans are being punished by the economic climate.

St. Louis isn't the only town where sports teams are getting smacked around by the real estate hurricane. In Tampa, Lightning owner Oren Koules has yet to develop the 5.5 acres of land that were included in the $204 million price tag he paid for the NHL club last year. The Lightning are now losing money after debt service.

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Tampa and Texas, both highly leveraged, are the two franchises most likely to suffer from their real estate fiascoes. The Rangers' debt to franchise value ratio of 66% is the third highest in Major League Baseball.

Stadium centred “mixed use” developments arose in reaction to increased public cynicism about the touted economic benefits of investing public dollars in new stadium / arena construction.

Economist [Phil Miller] :

These mixed-use developments seem to be the norm now that the cat is out of the bag regarding the economic impact (i.e. job and income creation nature) of subsidizing sports stadium construction. But are these developments catalysts for economic growth or are they little more than attachments to stadiums to get sufficient voter approval?*

Advocates of investing public dollars in the construction of Nationals Park in Washington argued that it would spur economic renewal in a poor neighbourhood. Now with the second season at the new ballpark more than half complete, there are reports that the promised ancillary development has not yet been realized. [Jeff Blair] reported in June for The Globe and Mail:

The economic downturn suffocated the real estate development that was supposed to spring up around the 41,888-seat park. Serving fans in the immediate area of the stadium now, there's just a seedy liquor store and a tented faux-tailgate area. Instead, fans are ferried by a golf cart to a nearby neighbourhood, Barracks Row, where they can get a drink and a postgame meal. On foot, it is 20 minutes away from the ballpark.

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The D.C. government put nearly $700-million into building Nationals Park, which is in the southeast part of the city on both sides of the Anacostia River. Approximately $2-billion worth of commercial real estate was gobbled up once the planned park was made public, with 16 office complexes and condominiums built in a frenzy in which derelict fast-foot franchises were bought out at a cost of as much as $125 a square foot, according to the Washington Post. Then the boom went bust, and the Post reported earlier this year that one developer of a 75-unit townhouse complex was selling as few as two units a month.

New stadiums have often become key components in a trend to stimulate economic renewal in decaying downtown cores via large, government enabled, development friendly, “entertainment districts”. Is there a growing popular and academic backlash against government financing of, and investment in, these developments? Again from Tom Van Riper.

Cardinals officials didn't return calls for comment, but Patrick Rishe, a professor of business at Webster University in St. Louis, believes the holdup has the makings of a public relations disaster for the club, if not a financial one just yet....The eyesore that sits next to the park is becoming a point of contention for the locals.

"The Cardinals have to do something eventually, because of the rhetoric they've been giving St. Louis residents for the past 10 years," says Rishe. He figures that Ballpark Village will happen at some point, though in scaled-down form.

In January, the WSJ published an opinion piece by Jerry Bowyer which coincided with the NFL playoffs.

If there ever was a time to crow about the wonders of rebuilding a city around a professional sports team, this would be it. Three of the four teams remaining in the play-offs hail from cities -- Baltimore, Philadelphia and Pittsburgh -- that in recent years spent billions rebuilding their downtowns around pro sports facilities and other community "anchors."

Except that there's a problem. The teams might be competitive, but the cities definitely are not. All three continue to shrink in population, and have stagnant job markets and crumbling public schools.

Baltimore, Philadelphia and Pittsburgh were prototypes of the economic development fad of the 1990s: government-financed "investments" in economic development. They all practiced what was called "tin cup urbanism" -- the belief that the rest of society owed large taxpayer transfers to the urban cores from which most of us have fled. They all supped from the same cup: center city stadia, aquaria and subsidized retailia.

Heywood Sanders, Professor of Public Administration at the University of Texas San Antonio, is quoted in the aforementioned report from American Public Media. "*We've got former festival marketplaces and subsidized hotels and entertainment districts from one end of the country to the other that have absolutely gone bust."*

Professional sports in the US has benefitted greatly from what most experts estimate is at least $10 billion worth of public investments in stadia / arenas over the past few decades. Should leagues and franchises expect this level of support to continue?

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AMATEUR DRAFT UPDATE

LWIB, Jim Callis of Baseball America was very critical of both Commissioner Selig's tactics in attempting to enforce "slotting recommendations" and compliant clubs who make "signability" the key factor in determining which players they select in the amateur draft.

The main purpose of any draft—and don't let anyone kid you otherwise—is to keep costs down. The secondary goal is to balance competition by allowing the worst teams to select the best players. That's exactly what happens in the NFL, NBA and NHL drafts.

But not in baseball. After the Nationals, Mariners and Padres kicked off the 2009 draft by taking the best pitcher (Strasburg), hitter (Dustin Ackley) and athlete (Donavan Tate) available, the asking prices for the top players remaining weren't in the same stratosphere as what the Pirates and Orioles wanted to pay at picks No. 4 and 5. The Braves and Reds were determined to not exceed MLB's bonus recommendations for the No. 7 and 8 choices.

As a result, Pittsburgh (Tony Sanchez), Baltimore (Matt Hobgood) and Atlanta (Mike Minor) all took players Baseball America rated 23rd or lower on its final draft board. Meanwhile, several of the best pitchers in the draft went much lower than they should have, solely because of money: Jacob Turner to the Tigers at No. 9, Tyler Matzek to the Rockies at No. 11, Aaron Crow to the Royals at No. 12, Matt Purke to the Rangers at No. 14 and Shelby Miller to the Cardinals at No. 19.

Besides Kansas City, the rest of those clubs are all legitimate playoff contenders this season. On the other hand, the Pirates and Orioles are in last place, while the Reds are sixth and the Braves eighth in the National League wild-card race

Mr. Callis is also critical of Commissioner Selig's refusal to approve "over slot" deals until the August 17 signing deadline, while deals that adhere to "slots" are quickly approved. The Commissioner is rewarding clubs that comply with "slots" by allowing their draftees to enter pro ball a few months earlier (and potentially develop more quickly) than draftees of clubs that "go over slot". Mr. Callis argues that the clubs should force changes sooner than later.

Teams extol players who sign quickly and place importance of not delaying the start of their pro career. Yet the longer a player is willing to wait, the more he'll get paid.

It simply rewards kids that sit out until the end, thereby hurting them developmentally," one agent says. "However, the bottom line is that the teams are the ones that let it happen."

What's the solution? Teams should stop taking part in this charade.

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The Royals spent a record $11.1 million on draft bonuses a year ago, and it will cost them in the neighborhood of $7 million to sign their first three picks in the 2009 draft: Crow, Wil Myers and Chris Dwyer. Other clubs think the parameters of those above-slot deals are close to done, but the commissioner's office won't sign off until right before the deadline. If that's true, Kansas City should just finish the contracts now and announce that MLB is costing their players development time.

After years of neglect, the draft looks to be the key issue when baseball's collective bargaining *agreement expires in December 2011. But clubs should stand up for themselves now rather than wait for the silliness to end.*

LWIB, Kevin Goldstein of Baseball Prospectus also argued that the Commissioner's tactic of delaying approval of "over slot" deals is a waste of time and effort.

The signing period for the 2009 draft is, as expected, a complete mess. As of today, teams have just one month remaining to sign their 2009 draft picks, yet 20 of 32 first-round picks remain unsigned, including 13 of the first 16 selections. Of the 12 who have signed, half agreed to terms below Major League Baseball's recommended slot,...

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What they might be waiting for is simply a deal that matches last year's slot, as opposed to the ten percent reductions, which in the cases of Minor and Leake are differences approaching $250,000, not exactly a trivial sum of money. Still it's enough to create either a situation with there is a stalemate between the team and the player, or in many cases, there may already be a deal in place, but Major League Baseball will not recognize it until late in the signing period, for fear of a domino effect of over-slot bonuses, which of course will happen anyway.

Some have called this the " Jason Heyward effect," referring to the Braves ' first-round pick in 2007, also a year in which the slots were reduced by ten percent. The Braves and Heyward agreed early to a deal for the previous year's slot, but could not announce the signing until the deadline approached. "It's monumentally stupid," said one front-office official. "Everybody talks to each other, everybody knows who is going to sign for what, all this does is hinder a kid's development."

Both Mr. Callis and Mr. Goldstein have difficulty reconciling MLB's heavy handed efforts to control costs in the amateur draft while clubs signing teenaged international free agents to record setting deals go unpunished. From Mr. Callis:

At the same time, spending is running wild internationally. MLB finds it perfectly acceptable for *the Cardinals to spend $3.1 million on Dominican outfielder Wagner Mateo and the Yankees to drop $3 million on Dominican catcher Gary Sanchez. But if the Pirates had wanted to invest the same money in the No. 4 overall choice, the commissioner's office would have lobbied them hard not to do it and wouldn't have approved the deal until just before the Aug. 17 deadline.*

Dollar for dollar, draft prospects are better investments than international prospects. Draftees don't have their prices driven up because they're not on the open market, and they've faced better competition and have been scouted for several years.

MLB struggles to even pinpoint the ages of international prospects. The Indians spent $575,000 on shortstop Jose Ozorio last summer, whom MLB verified as a 16-year-old, and recently learned that he's actually three years older and named Wally Bryan.

From Mr. Goldstein:

*Said one exec, Look, **Bobby Abreu** can't find a job and then signs for $5 million. While 16-year-old are getting signed off sandlots in the Dominican for $3 and $4 million? That's the kind of thing that's going to get the union going," he added, while predicting than during the next bargaining session, once the players figure out what they want, them giving into financially harnessing the signing system for both draftees and international players will be what they use for leverage.*

“Rookie compensation” (both in MLB and the NFL) is a contentious and potentially divisive issue amongst union members in those leagues. In June LWIB reported that in reaction to the press coverage of Stephen Strasburg’s rumored demands, some MLB players have been publicly critical of escalating signing bonuses for amateurs. As Mr. Goldstein speculates, a similar backlash from veterans could develop over signing bonuses for international free agents. (The politics within the NLFPA are more complicated, vets vs. rookies, current players vs. retired) In an earlier June edition of LWIB, MLBPA Executive Director Donald Fehr was quoted:

MLB Players Association Executive Director Don Fehr, speaking immediately after Smith on the rookie wage scale issue, said, “One of the things you have to be wary of, when you talk about *the issues that were just raised, is in collective bargaining generally, and sports is certainly no exception to this, very often people will look, on the other side, will look for wedge issues."*

Fehr said the "classic example of a wedge issue" is one in which one group in a union is told another group is getting too much money "and you should all go and squabble with one another."

"Now I don't know if that is involved in this circumstance here, but on this side of the table we are all very conscious of such issues and where the instigation of raising such an issue comes from. If it comes from the players' side, you don't have to worry about it, because it will come with a proposed solution."

MID-SEASON ATTENDANCE

LWIB the All Star break provided an opportunity for pundits to examine mid season attendance numbers. How is MLB attendance? Don Walker reported that,"*Overall, attendance in Major League Baseball is down 5.9%, compared with the same time period a year ago."*
Darren Rovell
reported a very similar decline of 5.5%. Also from Mr. Rovell:

The most interesting numbers from the group that has experienced an attendance increase this year is the Kansas City Royals, which are getting the renovation and Zack Greinke bump despite heading into the break 14 games under .500. It also might come as a shock that the Rays, who made it to the World Series and are still in the chase to make the playoffs, ***are only up 11 percent***
from their measly attendance at this point last year.

Baseball officials say that the attendance decrease isn't as bad as one might think because both the Mets and the Yankees are playing in new, smaller stadiums.

*The **Mets are down 22 percent** and the **Yankees are down 13.5 percent** on a per game basis as compared to this time last year.*

*But the **Mets are actually up (+4.8%)** on a capacity comparison, while the **Yankees are down less than half their total attendance number (-6.2%)** when you consider the cutting of seats at the new stadium.*

*I know they're in economic hell, and they even raised some of their ticket prices, but it's a bit surprising that the Tigers have the second-worst attendance slide in the league **(-21%)** when they are leading the AL Central and are nine games over .500.*

In a Baseball Prospectus column, Shawn Hoffman pegs the attendance decrease at about 5.9%. More importantly, Mr. Hoffman provides some analysis on how gate receipts have been affected to date this season. Not surprisingly, the inclusion or exclusion of the two NYC clubs has a dramatic effect on the league wide bottom line.

...prices are just as important as paid attendance, especially in a year where most teams have either cut or kept them flat. There are also suite and club packages to consider; the Mets and Yankees have both drastically increased inventory in this space, making regular ticket sales seem almost secondary.

Team Marketing Report's annual survey can help with some of this. Coming into the season, the average ticket price rose 4.8 percent year-over-year, to $26.46. But if we combine TMR's numbers with the first-half attendance data, the weighted average so far has actually been $28.72 (which makes sense, since large-market teams generally draw the largest crowds and have the highest prices). That's up from a weighted average of $27.02 at this point in 2008.

So if we multiply it out, total gate receipts (price x tickets sold) are actually similar to last year's, *down just three hundredths of a percent. In other words, higher ticket prices may actually be making up for the decline in total attendance.*

That's true on an aggregate level, at least. There are still those two enormous new elephants in the room. If we take the Mets and Yankees out of the equation, the average ticket price still rises, but only by about ten cents, meaning that overall revenue is still falling by about 4.3 percent. And even that number is being held higher by the other high-end teams; the Cubs, Red Sox, and Phillies have all raised their average ticket prices, without any negative impact on attendance.

The reality is that most teams are struggling. According to our revenue estimator, twenty teams have seen declines at the gate, led by Toronto, San Diego, Oakland, Cleveland, and Arizona—all of whom are down more than twenty percent from last year. (Note: Toronto may only be there because of their currency; TMR calculated their prices during the winter, when the loonie was much lower against the dollar than it is now.) Given that none of those teams look like they're going to be anywhere near a playoff spot, and the economy still hasn't rebounded like many had hoped, the year-over-year comparisons may only get worse as the season goes on.

While gate receipts remain MLB's largest single source of revenue, the negative impact of declining ticket sales is mitigated by MLB's more diversified revenue streams. Mr. Hoffman predicts 2009 will be another robust year for MLB.

In the end, despite all of the negativity, I'm sticking with my prediction that industry revenue will actually be up this year. Attendance will likely be down more than six percent once the dust settles, but the new stadiums in New York should just about make up for that shortfall. Meanwhile, MLB Network is adding $200 million to the top line almost out of thin air, and MLB Advanced Media should at least see mild growth.

IN-MARKET STREAMING

LWIB John Ourand and Eric Fisher updated readers of The Sports Business Journal on MLB's recently announced deals allowing live "in market" streaming of Yankees and Padres games. MLB expects to have similar deals in place for most clubs at some point during the next season. The SBJ report provides an indication of MLB's short term revenue projections for the newly launched venture.

Major League Baseball's new in-market game streaming has the economic potential to rival the more than $40 million in annual revenue brought in by the established MLB.TV out-of-market service, according to league executives.

AND

MLB.TV, after a slow start in 2002, now attracts about a half-million subscribers per year paying $79.95 to $109.95 each, amounting to more than $40 million in annual revenue. MLB executives believe the in-market product could rival, and potentially surpass, that sum due to several key factors.

Most fans, according to league research, root for a single team, and the sport's fan base is roughly split nationwide between being geographically near their favorite club and being dislocated. Those elements, in the eyes of baseball, present a chance to essentially double the market for sales of streaming video subscriptions. MLB.TV enforces local blackout restrictions, with the in-market product such as the newly named "Yankees On YES" thereby providing a new opportunity for hometown fans to access previously unavailable content.

LWIB will return August 3

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