Written by Pete Toms
Sunday, 06 September 2009 23:31

This week in LWIB, is competitive balance / revenue sharing emerging as a key issue in the upcoming CBA negotiations? Plus, potential buyers emerge in the proposed sale of the Texas Rangers and Scott Boras on the subject of “rookie compensation”.

THE CALL FOR INCREASED REVENUE SHARING

According to MLB, revenue sharing resulted in $450 million being redistributed this season amongst “small market” clubs. (Some would argue that “small payroll” is more appropriate) Commissioner Selig has long argued that revenue sharing is essential to MLB’s goal of engendering “competitive balance”. (Some prefer the terms “parity” or “mediocrity”). Commissioner Selig publicly argues that increased revenue sharing and the corresponding increase in competitive balance in MLB has been key to growing attendance and industry revenues to record levels in recent years. When the Tampa Bay Rays competed in the 2008 World Series (along with the Milwaukee Brewers making the playoffs the same season) MLB could proudly proclaim that competitive balance had never been greater and that fans in all thirty MLB markets could legitimately believe that the “fall classic” could include their hometown. MLB was proud that seventeen of their thirty franchises had competed in the World Series in the past twelve years while eight different franchises have been champions in the last nine seasons.

LWIB saw media reports that “large market” clubs are reasserting their on field dominance this season. Trades of some high profile veterans from “small market” clubs to “large market” playoff contenders this summer has also contributed to renewed concerns about “competitive imbalance”. Also LWIB, one small market owner and one small market executive mused publicly if increased revenue sharing needs to be achieved in the next round of CBA negotiations (the current CBA expires in December 2011) if competitive balance is to be

maintained (re-established?).

Bob Nightengale reported last week for USA Today:

Baseball organizations have been reminded that the game's most powerful component often is a fat wallet.

If the regular season ended today, seven of the top nine highest-paid teams would be in the playoffs,….The Colorado Rockies or San Francisco Giants , who rank 14th and 15th and battling for the National League wild card, would be the only playoff team not in the top 10…….

The Texas Rangers and Florida Marlins are the only teams in the bottom 10 of payroll with winning records.

AND

That disparity was deepened by trade activity, with former All-Stars such as Matt Holliday (to the St. Louis Cardinals), Victor Martinez (Boston Red Sox) and Scott Kazmir (Los Angeles Angels) going from small-market clubs to teams with deep pockets. The

Chicago Cubs
and
New York Mets
are the only teams in the top nine of payroll not in contention.

Michael Hunt wrote last week for the Milwaukee Journal Sentinel:

When the champagne sting cleared from Doug Melvin's eyes after the 162nd game of last season, it was mentioned to the Brewers' general manager that teams from Milwaukee and Tampa Bay were in the playoffs and the two from New York were not.

For a moment we discussed whether this was the start of a more competitively balanced era for baseball, but soon the conversation drifted toward immediate concerns. Parity talk could wait.

So here it is, almost a year later, and it seems to be business as usual again in baseball. The New York Yankees, Boston Red Sox, Philadelphia Phillies and both Los Angeles teams represent the bulk of the ruling elite from their stations within the game's largest markets.

AND

As for the Brewers and their first playoff appearance in 26 years, as well as the Rays' refreshing run to the World Series, it is tempting to look at 2008 as little more than an anomalous season for baseball.

Commissioner Selig was quoted in both pieces and the tenor of his remarks was cautious. Mr. Selig speculated in Mr. Nightengale's piece that the 09 season has been "*aberrational*" in terms of "competitive balance". In Mr. Hunt's piece the commissioner expressed his antipathy towards a salary cap but did say,
"Is the system perfect? No. It needs some work,"

No doubt commissioner Selig treads carefully on this subject because he is acutely aware that revenue sharing is a contentious issue both amongst owners and with the MLBPA. Commissioner Selig must also be aware that at least some "small market" franchises will be pressuring MLB to bargain for increased revenue sharing in the next CBA. Milwaukee Brewers owner Mark Attanasio was quoted in Mr. Nightengale's article.

"We've had a competitive balance the last seven or eight years, so the question is whether this is an aberration or start of a trend.

"If it's a trend, that's disturbing, and it's something we'll definitely need to consider in the next (collective bargaining agreement)."

This is not the first time that Mr. Attanasio has spoken publicly about this subject, he made similar remarks this off season in reaction to the New York Yankees spending in the free agent market. Mr. Attanasio was not the lone "small market" voice LWIB to speculate publicly that "competitive balance" could be an issue in the upcoming CBA negotiations. Pittsburgh Pirates President Frank Coonelly was asked in an online chat, "*Any plans to lobby MLB to change its revenue-sharing system so that small-market teams like the Pirates can better compete?"*
Mr. Coonelly responded:

Major League Baseball already has, by a large measure, the greatest amount of local revenue sharing of any of the professional sports. Because of that revenue-sharing program there is baseball in markets like Pittsburgh, Kansas City, Cincinnati, Baltimore, St. Petersburg, Minneapolis and many more. Not only can we compete under the current system, the Rays, the Rockies and the Twins have shown that we can win under the current system……Having said all of that, the Pirates continue to work through the Commissioner's Office to aggressively pursue changes in the Collective Bargaining Agreement that will continue to reduce disparity and increase parity.

How will the MLBPA react if (obviously there is also opposition to increased revenue sharing amongst ownership) MLB negotiates for increased revenue sharing? Many argue that the true aim of revenue sharing and payroll taxes is not to achieve competitive balance but to suppress player compensation. As veteran players have met with diminished demand for their services in the free agent market in recent years, can the PA consent to increased revenue sharing and a resulting further "drag" on salaries? And finally, how important is "competitive balance" to a league's bottom line?

Andrew Zimbalist wrote in his 2003 book, May the Best Team Win, Baseball Economics and Public Policy :

While owners have claimed that they want more revenue sharing and a luxury tax on high payrolls in order to level the playing field, it is apparent that they are also seeking to control the growth in player salaries. Higher revenue sharing taxes lower the net marginal revenue product of players, and, other things equal, lower their salaries.

Many sports economists argue that revenue sharing has had little to no impact in increasing "competitive balance" in MLB. Some would also argue that eight different franchises winning the past nine World Series is not evidence of greater "competitive balance" but simply a result of the increased number of clubs competing in the postseason. Sports Economist David Berri wrote in 2006:

From 1996 to 2000 the New York Yankees won the World Series four times. "Baseball has a competitive balance problem" was the cry heard throughout the land. The only solution was some mechanism to control the growth of salaries and re-distribute baseball's wealth from the rich – i.e. the Yankees – to the poor.

The 2002 labor agreement – which was just extended to 2011 – was designed to resolve these problems. A luxury tax on high payrolls was enacted. This tax – primarily paid by the Yankees – was designed to restrict spending by large market teams on players. The agreement also focused on revenue sharing, which gave small market teams more money.

AND

Commissioner Bud Selig tells us that the 2002 agreement has ushered in a "golden age." If by "golden age" he means an era of pay equality and competitive balance, then the data doesn't seem to agree. Team payrolls are even less equal today and the level of competitive balance appears to be about the same.

The reality is that competitive balance improved in baseball during the 2oth century as the population of available athletes expanded. And the improvements occurred well before the 2002 agreement. …..In the last thirty years the standard deviation of winning percentage in both leagues has changed very little. Yes, payrolls have increased dramatically, but competitive balance remains basically the same.

So is this a "golden age" of baseball? If by "golden age" we mean the Yankees are not winning the World Series every year, then I guess that is true. But one should not be confused about how that trick was pulled off. The true trick happened when baseball expanded participation in the playoffs. Since 1995 the team with the best record in baseball has only won the World Series once. And that is because the best team now has to navigate three playoff rounds to win the title.

Putting aside the debates over whether or not revenue sharing and luxury taxes has resulted in greater "competitive balance" and whether or not small market clubs are investing their revenue sharing dollars in baseball players (as opposed to adding it to their bottom line), does greater "parity" lead to increased fan interest in a league? Many believe that the New York Yankees dominance (if dominance is measured in World Series championships) of MLB in the late 1990's was a key factor in the resurgent interest in the sport. Proponents of this argument also point to the enormous popularity of the EPL, a league with great competitive disparities. (An apples to apples comparison is not quite accurate due to the "promotion / relegation" structure of the EPL).

From a separate post from aforementioned sports economist David Berri on the importance of "competitive balance" to the popularity of sports leagues. (see here for additional discussion)

….the link between competitive balance and attendance has been extensively studied…..

And what does this literature indicate? Competitive balance does impact demand, but it doesn't appear to be very "important." At least, dramatic changes in balance do not seem to have a very dramatic impact on league attendance. Given this result, I am not sure the "optimal level of balance" is something leagues should actively seek…

This issue is unlikely to derail the upcoming round of CBA negotiations (if the owners decide to make it an issue). Industry observers foresee a continuation of the present good relations between MLB and the PA. Nonetheless, commissioner Selig is faced once again with the formidable challenges of balancing the demands of large and small market clubs while bargaining an agreement which allows the players to earn an equitable amount of revenue.

Select Read More to see details on the upcoming sale of the Texas Rangers, and Scott Boras on rookie player comensation

UPDATE ON POTENTIAL SALE OF THE TEXAS RANGERS

The Texas Rangers on field performance has been one of the 09 season's best stories. The Rangers unexpected close pursuit of the AL wild card berth has resulted in increased attendance and TV ratings. As for Rangers' owner Tom Hicks, his well chronicled financial problems has been one of MLB's most embarrassing storylines of the season. In the spring, Hicks Sports Group (also owner of the NHL Dallas Stars) defaulted on a $10 million interest payment to a group of 40 creditors. In July there were a spate of reports that MLB was assisting the Rangers in meeting their payroll obligations. That news coming after the Rangers had laid off 10% of their front office staff earlier in the season. LWIB saw reports that six potential buyers have emerged in the proposed sale of the franchise. Daniel Kaplan reported for The SportsBusiness Journal:

The Texas Rangers received letters from about six prospective buyers interested in acquiring the team when those documents were due on Aug. 18, financial sources said.

Owner Tom Hicks and MLB are looking for $600 million for the team, though sources close to prospective acquirers believe the franchise will sell for a figure more in the low- to mid-$500 million range. Hicks, through a spokesman, declined to comment.

AND

If Hicks does get a deal in the $500 million range, he would be doing well given that the team does not have ownership in a regional sports network and does not own its ballpark, though it does have a favorable lease, said sports consultant Marc Ganis, who has been advising the Tribune Co. on the sale of the Chicago Cubs that now is awaiting bankruptcy court and MLB approval. The Cubs, a historic brand, were valued at $845 million, but that includes their ballpark, Wrigley Field, and a 25 percent interest in Comcast SportsNet Chicago.

"In this economy, if they can get in the low $500 million [range] for a team that is underperforming relative to its market, Hicks should be very happy," Ganis said.

Barry Shlachter followed up on the SBJ report in The Dallas Morning News. Mr. Shlachter reports that Mr. Ganis estimates the value of the Rangers in the "*mid-$400 million range*". From the same report;

Don Erickson, a Dallas sports consultant involved in the sale of the San Diego Padres in February, said he would put the value of the Rangers below the Padres, who sold for $500 million. Moreover, any buyer should have deep enough pockets to lose $20 million a year, since it would be difficult to turn a profit in a bad economy, he said.

"You cannot think like a businessman and buy these teams," Erickson said. "They pretend like they do. But they're really thinking with their ego. The reality is that in the last five years, the vast majority of teams didn't make money."

The only names that have surfaced as possible buyers are former Fort Worth auto dealer David McDavid, who has been keeping a low profile, and Rangers president Nolan Ryan, who has made few statements on his position.

At the same time as HSG is searching for a buyer for the Rangers, they face a potential showdown with the NHL over control of the Dallas Stars. From a separate, and also recent, report from Daniel Kaplan in The SportsBusiness Journal.

The more than three dozen creditors of Hicks Sports Group, the owner of the Dallas Stars and Texas Rangers that defaulted on its debt in March, sent a letter to the NHL four weeks ago asking the league how it planned to help address their concerns, according to financial sources, but there has been no response.

At the same time, HSG owner Tom Hicks has suggested that he believes he can hold onto the Stars despite the default through August 2010, which is far later than the October deadline the creditors assumed existed for resolution of debt crisis, the sources said.

A process to sell the MLB Rangers is under way, but no such activities are believed to be occurring around the Stars. The situation could shape up as a major battle between the creditors on one side and the NHL and Hicks on the other.

"There will be litigation for sure," one of the sources said.

There is also speculation that a potential resolution to HSG's debt financing problems lies in Mr. Hicks search for investors in Liverpool FC of the EPL. (Mr. Hicks co-owns the franchise with George Gillett) The soccer franchise is not owned by HSG but Mr. Hicks could potentially use cash acquired from new investors in Liverpool FC to alleviate HSG's debt crisis.

SCOTT BORAS ON ROOKIE COMPENSATION

Stephen Strasburg's record setting rookie deal has brought increased scrutiny to the subject of "rookie compensation" in MLB. Both commissioner Selig and MLB Executive Vice President, Labor Relations & Human Resources, Rob Manfred have stated that MLB will attempt to negotiate "mandatory slotting" for amateur draft picks in to the next CBA. As well, an expansion of the amateur draft in to Latin America is expected soon. Both of these changes are a reaction to the rapidly inflating costs of acquiring young talent. At the same time as clubs have increased investments in amateur players, veteran players have recently encountered a depressed free agent market for their services. Some veteran players have been outspoken over the amounts of money that "unproven" rookies are commanding. "Rookie compensation" is expected to be an important issue in both the upcoming MLB and NFL CBA negotiations. Both leagues want to impose limits on "rookie compensation". Whether those dollars being awarded to rookies will instead flow to the veteran players is subject to healthy debate.

LWIB Scott Boras and Rob Manfred commented on the subject. From Liz Mullen , in The SportsBusiness Journal.

*"I did a record contract for [**Mark**] **Teixeira** in 2001, and it was eight years before we went above that," Boras said last week. "We have not represented a player that allowed us to exceed Teixeira, even though [MLB] revenues went from $3.5 billion to $6.5 billion."*

AND

Rookie contract records are set almost every year in the NFL, whose rookie salary system is based on the league's revenue, but that's not the case in baseball. Boras says the failure of rookie salaries to grow on pace with the sport's revenue is hurting the game by causing America's best young athletes to choose basketball and football over baseball.

"To suggest that baseball is actively recruiting the best athletes in America by the numbers is a farce," Boras said.

So far this year, Boras noted, the NFL has paid out $423 million to first-round draft picks. The NBA, with its rookie wage scale, paid about $102 million for first-round players. Baseball paid first-round draft picks $82 million.

***Rob Manfred**, MLB executive vice president of labor, said, "Comparing the NBA draft and the NFL draft [to MLB's draft] is like comparing apples to oranges." There are many differences, he said, including that few baseball players move directly from the draft into the collective-bargaining units of the respective players unions, unlike in football and basketball.*

OTHER NEWS FROM THE BUSINESS OF SPORTS NETWORK

(THE BIZ OF HOCKEY)

- RBC Center, Hurricanes See New Center-Hung Video Display
- Kelly's Firing Creates Leadership Void within NHLPA at Pivotal Time
- PAUL KELLY FIRED AS EXEC. DIRECTOR OF THE NHLPA
- VERSUS in Danger of Being Dropped from DirecTV on Tues.

(THE BIZ OF FOOTBALL)

- 2009 NFL Preseason Individual and Team Statistical Leaders
- Alabama Crimson Tide Top Ticket on Resale Market
- Inside the 2009 Forbes NFL Franchise Valuations
- Motor City Bowl Renamed Little Caesars Pizza Bowl
- MNF Preseason Game Featuring Brett Favre Highest Rated Preseason Game Ever for ESPN
- "Fan Can" Stance by Colleges Wreaks of Hypocrisy

(THE BIZ OF BASKETBALL)

- Complete NBA D-League Expansion Draft Results Released
- Hornets Owner Shinn Isn't Concerned About Team's Status
- The Biz of Basketball Adds Complete Summary of Current NBA CBA

Pete Toms is an author for the Business of Sports Network , most notably, The Biz of Baseball. He looks forward to your comments and can be contacted through The Biz of Baseball
.

Don't forget to register and log in on The Biz of Baseball site to get updates via your

in-box, and see information only logged in members can see.

Follow The Biz of Baseball on Twitter