PUBLIC-PRIVATE SECTOR RELATIONSHIPS IN PROFESSIONAL SPORTS: THE CASE OF THE PITTSBURGH PIRATES

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Relations between the public and private sectors are increasingly important, as service providers search for more efficient and effective ways to deliver both "public" and "private" services. This article explores the creative cooperation between public and private sectors in retaining the Pirate baseball franchise in Pittsburgh. The findings have implications for other troubled sports franchises, and potentially relate to other types of services, as well.

The benefits of a professional sports franchise to a metropolitan area have long been recognized, both by municipal officials and sports entrepreneurs. Local officials seek to attract and retain the economic benefits sports franchises carry with them. Franchises also add to the cultural identity and civic pride of a community. "The fact that so many of the benefits a city derives from the existence of a sports facility are intangible makes it difficult to achieve a consensus about them because their value cannot be measured in monetary terms" (Okner, 1974, p. 327). Sports franchise owners, for their part, use economic and intangible benefits as "bargaining chips" to gain various subsidies from host governments. Since the demand for franchises exceeds the supply, sports franchise owners are usually successful in winning a variety of subsidies from municipal officials. Competition between cities for franchises is keen, and similar to metropolitan competition for industry.

The issue of franchise relocation is an important one to municipal officials as well, because of the potential *loss* of benefits to the community. Recent relocation of the Baltimore Colts and Oakland Raiders to new locations have revived municipal concerns.

> Citizens and sportswriters are quick to express outrage when their home city loses a sports franchise. The public policy issue that usually arises is whether the government ought to prevent, or at least control, the movement of teams (Noll, 1974, p. 409).

Congress has to date declined to limit the relocation rights of sports franchises. As Johnson (1983) reports, sixty-eight franchise moves have occurred in the four major sports (baseball, basketball, ice hockey and football) since 1950, with 37 of those occurring since 1970.

The threat of relocation is often used to advantage by owners in their negotiations with present or potential host city officials. As is true with industry, most communities wish to prevent relocation of the sports franchise. A negotiating process between the franchise owners and city officials most often occurs prior to relocation. The goal of city officials is to offer owners enough incentives to persuade them *not* to relocate, keeping in mind the fiscal implications of various possible subsidies.

Municipal officials are, for the most part, on their own in this negotiating process, since current law allows franchises practically unlimited rights to relocate (pending approval of the relevant sports league). For officials who would retain franchises, new options and approaches may by necessary. The most common inducements, subsidized municipal stadiums and a variety of tax breaks, may not be sufficient.

Some tax breaks given to franchises may actually *foster*, rather than prevent, franchise movement. Noll has pointed out that "the practice of allowing owners to capitalize and depreciate most of the purchase price of a franchise has created a fairly high incentive for rapid turnover of franchises. If a team is resold every few years, it is likely that occasionally the highest bidder will be someone from another geographic location" (1974, p. 413).

What follows is a presentation and analysis of the process that prevented the relocation of the Pittsburgh Pirates baseball franchise. This case is significant because of the aggressive determination of Pittsburgh officials to prevent relocation. Further, the options considered, and the solution finally adopted, represent a new relationship between public and private officials on the issue of sports franchise operations and location. As baseball Commissioner Peter Uberroth said, "Mayor Caliguiri's proposal was so imaginative and creative (that) I would not be surprised if it served as a blueprint for other municipalities with struggling franchises" (*Pittsburgh Press*, 1986a).

Background: A Franchise in Trouble

A Pirate franchise in the 1984-85 period appeared untenable in Pittsburgh, primarily due to financial losses. The Pirates finished deep in the cellar of their division in 1984 and 1985. They had high player salary costs and low attendance. Home attendance slumped in 1985 to an average of only 9,435 per game (The Division winning Los Angeles Dodgers, albeit in a far larger market, drew more that 40,000 per home game.) (*Forbes*, 1986). At the same time, the Pirates' public image was damaged by a federal grand jury investigation of drug use in baseball. Numerous former Pirate players were implicated.

Finally the John W. Galbreath family of Columbus, Ohio, the Pirates' principal owner since 1946, moved to sell their interest in the team. The franchise had reportedly lost about $15 million in 1984 and 1985, and had lost money for nine consecutive years. Officials in the baseball-hungry cities of Denver, Indianapolis, Washington, D.C., and Tampa expressed interest in the franchise, raising the spectre of relocation for Pittsburgh officials.

The Galbreaths first attempted to find investors who would promise to keep the team in Pittsburgh, but failed to do so. The Pittsburgh Chamber of Commerce estimated that the Pirates contributed about $40 million a year into the local economy. City and union leaders asserted that up to 2,500 jobs depended on baseball and related support industries, such as bakeries and beer suppliers (*Observer-Reporter*, 1986). In an area already hard hit by industrial plant closings and a distressed steel industry, these statistics mattered perhaps even more than they might in a different locale. Other benefits that were valued were increased publicity for a city recently voted "America's most livable" and higher civic morale.

A further consideration was that the city received $852,000 annual net gain from the Pirates' use of municipally owned Three Rivers Stadium, and an additional $1.59 million was collected in taxes and fees levied on the team, parking lots and concessions related to baseball games (*Pittsburgh Press*, 1986a). At the time of the ownership crisis, the Pirates were signed to a long-term lease on the stadium, a fact which worked in the city's favor. However, this might have been broken if relocation incentives from some of the cities mentioned earlier proved enticing enough to potential new owners.

Pittsburgh's Mayor Caliguiri determined that relocation was both likely and, from Pittsburgh's point of view, most undesirable. He set about the development of options for keeping the franchise in Pittsburgh.

Plan A: Shared Public-Private Ownership

The first public proposal to retain the Pirate franchise in Pittsburgh was a call for joint public-private ownership of the club. Under this plan, Mayor Caliguiri proposed that a public-private partnership be formed to buy the club, thereby guaranteeing its continuance in the city.

The Mayor proposed that the city raise its half of the purchase price, approximately $25 million, by selling the stadium to private investors.[1] The cash received as a down payment on this sale would be devoted to the city's half of the purchase.

A private investment group, assembled at the Mayor's initiative, would provide the other half of the purchase price, raising the funds privately. Operation of the team was to be handled by the private investors with, however, a representative from the city also on the Board. This plan was unprecedented, as it would have involved the first public ownership of a professional sports franchise. Major local political figures, however, expressed quick and strong opposition to the public ownership option. Particularly important was the opposition of Allegheny County officials and several City Council members, all of whose cooperation and approval were needed for the plan to succeed (*Pittsburgh Press*, 1986b). After a brief public furor, therefore, the joint ownership proposal was abandoned. As will become clear, however, key elements of this first proposal were retained in subsequent options developed by city officials.

Plan B: The Modified Partnership

The second proposal "floated" by the Mayor's office came very close to fruition. Its key elements were: (1) sale of Three Rivers Stadium to private investors, known as "Three Rivers Associates"; (2) a contribution of about $25 million cash from the stadium proceeds to the Urban Redevelopment Authority, Pittsburgh's urban development agency; (3) A $25 million loan from this Authority to Pittsburgh Baseball, Inc., a group of private investors who would buy the franchise; (4) financing of the remainder of the franchise purchase price by Pittsburgh Baseball, Inc,; and (5) leasing of the stadium by the publicly owned Stadium Authority (*Pittsburgh Post-Gazette*, 1985).

The Mayor's office argued that this proposal would keep the franchise in Pittsburgh at minimal cost to the taxpayers. The financial aspects of the proposal are diagramed in Appendix 1.

The sale of the stadium was the key to this plan.[2] Included was a clause providing that the city might *buy back* the stadium in 2011 at its then current

value. Absent some catastrophe, it would be worth at least the accrued interest plus the principal. If it were worth more, the investors would be able to keep the difference, and the city would get back a 41-year-old stadium. If the new ownership had not produced a profitable operation, and the Pirates moved elsewhere, or the Stadium Authority did not renew the Pirate lease, or the city elected *not* to buy back the stadium, the real estate investors would have nearly 50 acres of prime Pittsburgh real estate (*Forbes*, 1986). These were significant protections for both the city and the investors purchasing the stadium.

This proposal was strongly supported by local officials, Pittsburgh media, and the general public. It was seen as a package that retained the franchise and its benefits for the city, at minimal cost to the government. It also avoided the controversies raised by the "shared-ownership" proposal previously advanced. As Mayor Caliguiri stated, "In this way the public would not own the Pirates and would have no operational responsibilities. Instead, local government would be making a loan to keep a vital sports enterprise in Pittsburgh" (*Pittsburgh Post-Gazette*, 1985b).

However, early in 1986 the proposed sale of Three Rivers Stadium fell through. The New York real estate group decided against the purchase and the city could not quickly find an alternate buyer.

Plan C: The Feasible Pittsburgh Option

By late 1985 Mayor Caliguiri succeeded in two major efforts related to retaining the Pirate franchise. First, he had assembled a local group of experienced private-sector executives willing to purchase the franchise and keep it in Pittsburgh, in cooperation with the public sector. This group represented a community coalition, as its membership included: Westinghouse Electric Corp. Chairman Douglas D. Danforth; Carl F. Barger, managing partner of a major Pittsburgh law firm; and Malcolm M. Prine, Chairman of Ryan Homes, Inc. The investors also included United States Steel Corp., Mellon Bank, Pittsburgh National Bank, Aluminum Company of America, and Carnegie-Mellon University. This list reads like a private "Who's Who?" of the Pittsburgh community; its prestige was of incalculable value in the effort to retain the franchise. It should be noted, however, that the coalition did not include either labor or other significant citizens' groups in the community, but was, rather, a highly business-orientated group.

Caliguiri's second major accomplishment by late 1985 was that of preparing his various constituencies for a major public sector role in the retention of the franchise. His first two proposals--joint public-private sector ownership and a loan financed by the stadium sale--had attracted widespread interest and media coverage. Both the relevant groups of local public officials and the general public had gradually come to accept the idea that the municipal government would need to somehow facilitate matters, and do so actively, if the Pirates were to be kept in the city. Undoubtedly the commitment of notable *private* executives and corporations to the effort contributed to the Mayor's subsequent success in developing support for the *public* sector's participation.

The solution that ultimately evolved in Pittsburgh was built upon this solid, two-pronged support base cultivated by the Mayor and city officials. In essence it incorporated the public-private sector relationship posited in "plan B". The franchise was, indeed, purchased by Pittsburgh Baseball, Inc., which agreed to the purchase, however, only because of the public sector loan of half the purchase price plus the funds needed to cover anticipated operating losses during the first five years of operation. As an active participant in the development of these agreements, the mayor then faced the problem of raising the public sector's share of these needed funds.

After the earlier sale of the stadium collapsed, the Mayor quickly (within a week) proposed that the city issue public bonds worth $21 million to raise its share of the requisite capital.[3] (The speed with which this plan surfaced indicated that it was most likely the mayor's "fallback" position all along.).

An added inducement to the franchise purchasers was the renegotiation of the stadium lease, with the expiration date changed from 2011 to 1991. The latter date was informally acknowledged as the target date for evaluation of the franchise's success under the new ownership.

This plan required the approval of the City Council, as well as state and county officials. The sale of the franchise itself, of course, required the approval of the Commissioner of Baseball, nine out of eleven National League owners, and a simple majority of American League franchise owners. All of these requisite approvals were obtained in due course, and the sale of the Pirate franchise from the Galbreaths to Pittsburgh Baseball, Inc., was completed in the spring of 1986.

Conclusion

The Pittsburgh solution for retaining a sports franchise at a major decision point is unique and important for several reasons. First, the approach ultimately adopted in Pittsburgh forsook some of the "traditional wisdom" about how to attract and retain franchises. Usually cities employ one of two basic strategies: 1) build a stadium and offer franchises leases at substantially subsidized rates, obtaining the longest possible lease with the franchise; or 2) allow substantial tax deductions for various aspects of franchise operation. As noted earlier, the tax incentives may "backfire" on occasion, actually contributing to a city *losing* a franchise.

Pittsburgh, by contrast, developed a solution which, initially, involved *divesting* itself of an already publicly owned stadium. Further, in the final solution, Pittsburgh *shortened* the stadium lease term as an added inducement to new Pirate owners. Both of these actions regarding the stadium contradict the usual formula, i.e., acquire a stadium and then hold the franchise to the longest possible lease.

A second feature of the Pirate saga that is unique involves the new ownership and the public sector's role in facilitating the assembling of these owners. As *Forbes* (1986) stated, the purchase of the Pirates may be viewed as "a gallant exercise in civic pride." Family ownership in sports appears on the decline, but the Pittsburgh replacement for family owners was not the now common single corporate owner, but a new type of coalition. The eight sizable organizations represented in Pittsburgh Baseball, Inc. have a combined corporate ownership totaling over half a million people. Further, the organizations themselves have substantial visibility in the Pittsburgh area, which adds to the public relations potential of the club under the new ownership scheme.

Not only is the ownership itself unique, but the public sector played a key and unusual role in assembling the owners. Mayor Caliguiri, Westinghouse's Douglas Danforth and attorney Carl Barger were the leading actors in putting the coalition together. Rather than leave the Pirate sale up to the Galbreaths alone, then, the Mayor and his private sector allies took an aggressive approach to attracting the new buyers.

A third respect in which the Pirate story is significant is the stronger, more activist role of the public sector in franchise location defined by the various options developed in Pittsburgh. The first option, "Plan A," was the most novel departure in this regard, calling as it did for joint public-private ownership of the team. In the second option, involving sale of the stadium, as well as in the third, the public sector's role was somewhat more modest.

Nonetheless, the willingness of Pittsburgh area public officials to become more involved in the sale and financing of the franchise is clear in these two options, as well as in the first. Public officials in San Francisco, Seattle and Cleveland subsequently consulted with Pittsburgh city officials about the mechanics of constructing civic coalitions to save baseball franchises in their cities (*Forbes*, 1986). This suggests that the Pittsburgh experience may already be serving as a model for other cities faced with potential loss of franchises.

The subject of public-private sector cooperation in a variety of program areas is of current interest to public officials, administrators and citizens alike. The appropriate role of public and private organizations in such policy areas as education, urban service delivery, social services, and industrial development, among others, has received widespread attention. These discussions, in both academic and governmental circles, have indicated a willingness to consider and experiment with new combinations of public-private decision-making and service-delivery mechanisms in place of the notion that some activities ought to be totally "private" and others totally "public" in nature.

The successful retention of the Pirate baseball franchise in Pittsburgh suggests that the issue of sports franchise location and relocation is another area in which maintaining clear distinctions between "public" and "private" may be less important than creatively addressing the immediate problem at hand. In the Pittsburgh situation, indeed, it is clear that willingness to redefine the "proper" role of the public sector regarding sports franchises was perhaps the single most important ingredient in the city's retention of the Pirates.

What is necessary for public officials who may wish to emulate such a strategy in their own areas? First, it is clear that Mayor Caliguiri's personal popularity allowed him to propose options that a less popular official might not have dared. Second, a careful strategy of cultivating media support was employed. Third, the assembling of the broad based private coalition strengthened the Mayor's bargaining position with both the general public and other official whose approval and cooperation were necessary to final approval.[4]

It is too early to evaluate whether the new Pirate ownership, with the active support of the government of Pittsburgh, will succeed in returning the Pirate franchise to a sound financial footing once again. In 1986, the first season under the new ownership, there were initial hopeful signs, the most important probably being a commitment to rebuilding the team itself, and its image, and a resulting improvement in home attendance.[5]

In sports, as in so many other program areas, then, it seems possible that the key to success of public efforts may lie with the willingness to work creatively with the private sector, and to consider new definitions of public and private sector responsibility. In a recent article, Ted Kolderie suggests an interesting four-part concept of the sectors--combining *providing* and *producing*, government and non-government. *Providing* in Kolderie's scheme means "policy-making, deciding, buying, requiring, regulating, franchising, financing and subsidizing" (1986, p. 286). The second area, service *production* involves "operating, delivering, running, doing, selling, administering" (Kolerie 1986, p. 286).

The four categories of public and private sector distinctions that emerge from this breakdown are as follows:

Category 1:	Government does both provision and production. This is the pure "public" service.
Category 2:	Production is private. This is the "contracting out" model.
Category 3:	Provision (deciding) is private, but production is public, i.e., government sells to a market of private buyers. An example would be a private entity paying for extra police service.
Category 4:	Both provision and production are private. This is the purely "private" model of private agencies selling to private buyers.

This typology offers an interesting way of viewing the various public-private roles considered in the Pirate case. "Plan A," the proposal for joint public-private ownership, could conceivably have involved the city in both *provision* of a baseball team for Pittsburgh, and *production*, or operation, of the franchise, thus making Pittsburgh baseball some variant of a Category 1 (heavily public) activity.

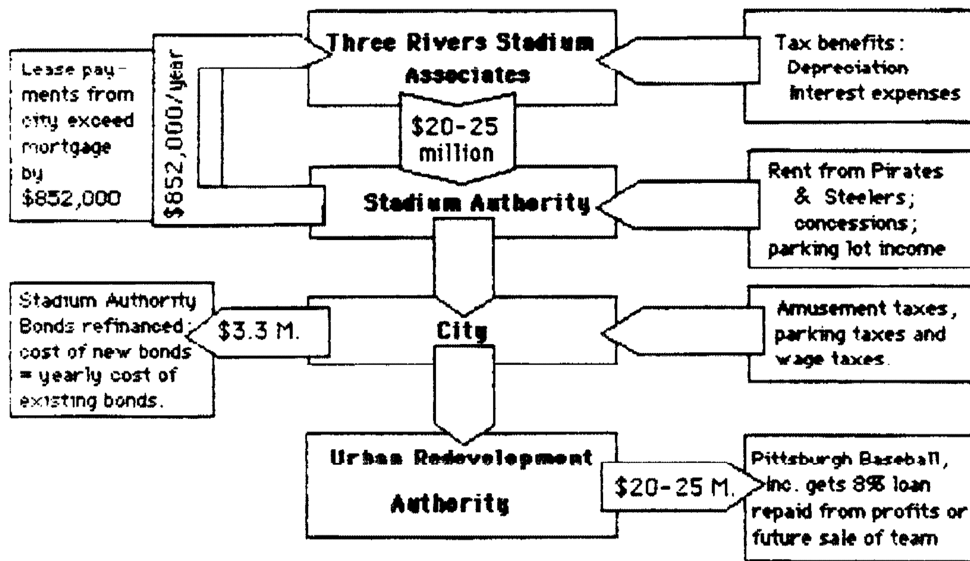
"Plan B" moved in the direction of making Pirate baseball a Category 3 activity, with government selling the stadium to private buyers. The third Pittsburgh option, and the one actually adopted, probably comes close to Kolderie's Category 2. The city *provided* for baseball in Pittsburgh through creative financial and ownership arrangements, but actual *production* (operation) remains in private hands.

Thus, in the Pirate case development of new connections between the two sectors provided at least a short-term, and perhaps a lasting, resolution of what appeared at the outset to be insurmountable obstacles to retaining

the franchise in Pittsburgh. The creativeness of these new public-private relationships, coupled with the determination and political persuasiveness of city officials, made all the difference.

APPENDIX 1

Financial Arrangements in "Plan B"



Source: Pittsburgh Press (1985).

NOTES

1. The mortgage on the proposed stadium sale would have run until 2011, the same year the Pirate lease was to expire. The buyers of the stadium would make regular payments to the city. The advantages to the stadium buyers under Plan B were: (1) a net return of $852,000 a year (lease fees minus mortgage payments); (2) tax benefits from depreciation and the interest on the mortgage paid to the city (depreciation alone would come to nearly $100 million); (3) a facility that would increase in value over the mortgage's lifetime; (4) no loss of cash, as the purchase would be made with a $110 million mortgage from the Stadium Authority and the remainder in secured notes.
2. A group of real estate investors was located and the purchase price was said to be $125 million. After the stadium was sold, the municipal Stadium Authority was to lease it from these New York investors. This arrangement would cost the city $852,000 a year, the difference between the mortgage payments to the city and the cost of the lease. Windfall taxes received on the sale of the stadium were to be returned to the city as part of this plan. Thus the County of Allegheny, the Pittsburgh School District and the state would have had to approve this portion of the plan.
3. The details of the bond issue are as follows: (1) the term was 20 years; (2) the estimated cost to the city in debt service would be $816,000 the first year, $1.52 million the second year and $2.15 million a year thereafter; (3) if the team were to move, the new owners would be required to repay the loan immediately, through the sale of the franchise, estimated to be worth $50 million (*Observer-Reporter*, 1986).
4. Given protests in the summer of 1987 about lack of minority representation in the management of professional sports, particularly baseball, municipal officials might be wise to develop even *broader based* community coalitions that the one developed in Pittsburgh. The Pittsburgh coalition did not include, for example, traditionally strong constituencies such as labor, the religious institutions, and minority groups.
5. In 1986 the Pirates drew over a million fans, and averaged 12,665 per game, an improvement of about 25% over the previous year, despite the fact that the team finished in the cellar of its division (*Pittsburgh*

Post-Gazette, 1986). Attendance in 1987 is even better, with the Pirates breaking the one million attendance mark in mid-August. This suggests increased fan interest and support, obviously the key to ultimate franchise success.

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