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An Investigation into the Accounting Practices of Owners in the Professional Sport Industry with specific consideration of implications to Players, Taxpayers, and Local Governments

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Abstract

In today's sport industry there is a push by players to maintain an equitable split in revenues to ensure ownership groups do not exploit them. This has been of particular importance over the past five years during collective bargaining agreements. Players associations are not the only groups who are affected by the financial management of professional sport owners. Taxpayers and local governments also share an interest in the manner owners operate teams. With an increase in public subsidization of sport teams, taxpayers have a natural vested concern for professional sports.

The concern on this topic comes with the financial management of professional sport teams by owners. There are documented uses of creative accounting practices by owners, which fatten their wallets while often times taking advantage of players, taxpayers, and local governments alike. Owners hide revenues and certain expenses to paint a picture of poor financial team health to the three parties in order to maximize player salary efficiency and public subsidization.

In an attempt to correct the current need owners feel to utilize creative accounting practices, this thesis developed a regression analysis to understand how their fans respond to cost structure of player contracts. As detailed in the latter portion of the thesis, fans of the MLB, NBA, and MLS all respond differently to salary structures; proposing a solution to increasing player cost efficiency.

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Executive Summary

This thesis has two main goals: to investigate and discuss the creative accounting practices used by owners in professional sport and propose a solution for owners to decrease the use of these generally unethical accounting practices. Over the past decade the accounting side of sport has become increasingly important. The National Football League, Major League Baseball, National Basketball Association, and National Hockey League have restructured their collective bargaining agreements in this period. The collective bargaining agreements, just like in the remainder of American commerce, govern the relations between the employers and employees; in sport it is the owners and players respectively.

The two major pieces of discussion in professional sport collective bargaining agreements are the revenue sharing and player compensation models. Although they are two separate ideas, they are collaborative and equally important pieces for player associations. For revenue sharing there are different models and means of equalizing the distribution of revenues in the league amongst the teams. Revenue sharing relates to a certain percentage of the teams' revenues being dispersed in a general pool. These revenues are generally split, based on need, to lower revenue-producing teams. Generally low revenue teams exist because of several reasons including: population and income of the region, team history, tradition of

winning, and exciting players. All of these serve as drivers in fan affinity for a team.

Usually teams are required to share the revenues less the operational expenses into the pool and receive a certain percentage back. The concern in this structure is that larger revenue team owners will attempt to expense out more revenues into their pockets and thereby sharing less of this profit. The purpose of revenue sharing is to create competitive balance in the league. Competitive balance is where teams start to bring in equal bottom-line profits and any single team could have the financial opportunity to win a championship in a given year. This is not ideal for large revenue teams since they are required to give more to the general pool and will receive back the same amount a low revenue team who puts less into the pot. Therefore owners across the board and different leagues have used creative accounting practices to share less in their own interest.

These accounting practices are important in the second piece of collective bargaining agreements: player compensation. All leagues traditionally, except the MLB, have some sort of "cap" on the amount teams can spend on their total roster of players. A cap, as the name implies, creates a ceiling for team spending to drive a competitive balance in the league by no one team drastically outspending the league average for player salary.

The NBA, for example, has a soft cap, which once exceeded taxes the team. The soft cap tax is put into the general pool for revenue sharing, but simultaneously allows for a team to theoretically spend large sums in hopes

to drive wining-percentage or fan based revenues. The NFL however has a hard cap that teams cannot surpass. Teams often structure contracts in order to fit into this cap; maybe they will pay a player less one year allowing them to pay a different player more in that same year.

In collective bargaining agreements, players and their associations/unions aim to increase the caps on player compensation as high as possible. The owners generally tend to want to decrease the amount they are required to spend on talent while maximizing revenues from ticket, merchandise, and sponsorship sales. Revenue sharing allows all teams to spend equal sums on players. With shared revenues, low revenue teams can now maximize their spending under a certain cap. This again gives wealthy owners a reason to decrease reported revenues in order to maximize their personal profits while winning at the highest percentage.

Owners are known for consistently lamenting over their teams' financial instabilities. This has huge implications for taxpayers and local governments. Due to the local and regional importance of professional sports teams in economics and socially, local governments tend to help these teams in any way possible. This thesis cites examples where state and city governments are lending or giving large sums of money to support stadium constructions and renovations. In San Francisco, for example, a city council created a private group with the same name to borrow money from Goldman Sachs, to fund $950 million intended for the new 49ers football stadium. The San Francisco 49ers will act as tenants in the stadium. However, if yearly

payments are not met to pay back the lender, it is likely the taxpayers will be the back-up source of funding. These types of stories have been rampant throughout the past decade in the professional sport teams. This, along with tax breaks and special deals for owners and teams, make profits easier to come upon for these owners. Local governments have expectations of owners financially, anticipating a giveback to the municipalities and states supporting their teams. The main issue with the expectations is a team is likely to pack up camp and move to a new city where they can retain more of their revenues. For a number of reasons, including city excitement and the glamor of having a professional sport team, many cities want to host a team. More cities want to host teams than there are teams to be spread around. This allows owners and leagues to create financial leverage in most situations because of the high demand for hosting professional sport teams.

All of these situations in the current professional sport financial models give owners easy avenues to attempt creative, and at times unethical, ways to maximize their revenues. The last section of the thesis looks to create a solution to this paradigm. Through quantitative analysis the goal was to test for fan preferences as it relates to player spending. If owners can understand how to maximize ticket sales (generally an unshared revenue) through player salary optimization, then the hope is they may decrease their creative accounting habits and perceived need for public subsidization. This quantitative analysis will provide a means of increased efficiency for player

spending by owners, and therefore less need for creative accounting practices.

This thesis explains, in depth, the collective bargaining models of each of the big four professional sport leagues, and how owners are, in a way, exploiting the revenue-expense systems to their benefit. Not only does this have implications for players associated with the collective bargaining agreements, but also has meant a great deal to taxpayers and local governments. With a potential solution for owners to maximize revenue through fan preferences, there is a hope to decrease creative accounting practices and the stream of public subsidization.

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This thesis is a credit to all of the teachers I had the opportunity to work with over the past years, in and out of class. I hope this is just the foundation to my education; a start on a life-long hunger for exploration, knowledge, and growth.

Setting the Owners' Stage

"That $27.6 million net loss looks bad, but, as you'll see, it's an illusion — a trick of accounting, one practiced by every sports franchise with the full blessing of American tax law and one we should keep in mind whenever an owner pleads poverty (Craggs, 2011)." Sport Writer Tommy Craggs introduces the concept of professional sport owners utilizing creative accounting practices to maximize their personal profits; this is the focal point of the thesis. With serious implications for players (in collective bargaining agreements), taxpayers, and local governments alike, there will be an aim to investigate, understand, and propose a potential alternative to these creative accounting practices.

Sport is a unique piece of modern culture. More than ever, sport brings different people together in different settings. From LeBron James's athleticism as he leaps through the air for a resplendent dunk, to hundreds of thousands of people coming together on an international scale for the 2014 Boston Marathon in support of those lost in the previous year's event, sport is an unparalleled event. The combination of the skill, passion, and enthusiasm of participants and enthusiasts alike is not visible in any other professional enterprise.

Professional sport owners can connect the emotions associated with sport teams and cities with the business side of sport to capitalize. This creates a need to grasp the whole picture of the owners' reach. In particular, as noted in the initial quote, how do accounting practices not only change the

face of the sport industry, but also how do these practices affect the American population as a whole? Even though professional sport is a business where the ultimate goal is to generate bottom-line profits for the owners and investors, it is of particular importance to understand how owners and players can create an equitable and mutually beneficial relationship while showing respect to the passion and money of fans. Over time most American businesses have created an equilibrium, or at least an agreeable system, to maximize utility for the employer, employees, and consumers; however, starting in the middle of the 20th century there was a at which owners began tightening their grip on the monetary flow associated with professional sport.

Owners progressively have looked for ways to benefit their wallets, which hurt several different parties including: players, small market and low-income teams/owners, local governments, and taxpayers. This thesis will aim to tell these stories, while suggesting a way to curve the issue of profit sharing. Additionally the hope is to potentially value a franchise, which will help create a model for sharing the profits with the affected parties.

An Historical Perspective and Creative Practices

Despite professional sport leagues and affiliated teams being considered businesses under the American laws that govern commerce, there have been particular laws and precedents putting professional sport in a different legal consideration than ordinary business. Investigating these precedents helps to understand how owners have recently strengthened their grip on the monetary flow of sport.

One such case occurred in 1959 when Bill Veeck, the former owner of the Cleveland Indians, argued to the IRS that once professional athletes have been paid, they begin to "waste away" or depreciate in value. This is a common term in generally accepted accounting principles (GAAP), however in commerce depreciation is not used for employees. Veeck, through this roster depreciation allowance (RDA), hoped to depreciate his roster like any other asset such as an office copy machine, a company car, and a farmer's cattle (Craggs, 2011). All of these have logical decreases in value over time: a copy machine has a definitive useful life, the company car will break down with usage, and cattle become less valuable with age. There is a need for depreciation in these cases because of a depletion of the asset capacity. Under GAAP businesses should use a conservative mindset. A player, however, is unique and different from depreciable assets. Players can become more valuable or less valuable, depending on a couple of aspects.

For example, if the Seattle Seahawks of the NFL signed a young running back to a five-year, $20 million contract, this gives the belief that the market has the player valued to the franchise and the rest of the league at $4 million per year. If the running back has a great season the market value of the player increases; then the Seahawks could in theory trade the player at the end of the season for more than the remaining value of $16 million on the contract. Additionally, if the running back has a spectacular season the team is likely to realize increased revenue in ticket and merchandise sales.

It is true, in this scenario, the running back could have a disappointing season and not be worth the $4 million spent over the season. Under this thought, it does seem logical for the team to note depreciation on their asset, and Veeck has a point.

Generally players equal or exceed the contract value, more often than coming short. If the player can be anticipated to equal or exceed the value of $4 million to the team more often than be of less value, wouldn't then the conservative mindset be not depreciating the value of the player? Even though the player is generally as valuable on the market after the season, Veeck made it possible for teams to recognize two expenses, the depreciation expense and the salary expense associated with the player. This is not only important for taxation purposes but, as the story will expand upon throughout the paper, players and taxpayers will be affected.

When Veeck generated this idea, "the IRS not only agreed with Veeck but allowed any owner claiming the write-off to deduct roster expenses twice

— first under "player salaries," … and then under "loss on players' contracts" — and an enormous tax shelter sprang up within the balance sheets of franchises everywhere (Craggs, 2011).” Questions do arise because a team’s roster at a particular point in time is not actually depreciating. Some players fade in value with age, while others are developing and improving. Teams will not, however, pay more taxes if a player becomes more valuable. Accounting practices hold a conservative mindset, where the lesser of the cost of an asset or the fair market value is the distinction in expected losses. In accordance with this mindset gains are not reported until they are actualized. “Given this however in the now, owners are taxed less and aren’t taxed for selling or trading the player later on (Craggs, 2011).”

Owners attempt to bring the most money back to their pockets through several financial management strategies. In addition to player depreciation, owners find other practices to misrepresent the fiscal health of their teams. One such example is the practice of owners receiving salaries, which are counted as businesses expenses that decrease team profits. “In the NFL, some owners have paid themselves ‘salaries’ as high as $7.5 million (Hunt, 2011).” George Steinbrenner, famous former owner of the New York Yankees, in the early 1980s infamously paid himself a “consulting fee” of $25 million for the negotiation of the Yankees’ cable contract (TS, 2009).

This is continued with owners creating new related businesses related to their teams. Two particular examples of related businesses creating additional revenues for the owners are the New York Yankees and

Cleveland Indians. The YES (Yankees Entertainment and Sports) Network, which is owned by the same holding company of the Yankees, produces revenues for the ownership group and not directly for the Yankees. This network uses Yankees and Brooklyn Nets media content to stimulate sponsorship and fan revenues.

Cleveland Indians Baseball LP does not own Sports Time Ohio, but instead the majority owner of the Indians, Larry Dolan, personally owns Sports Time Ohio. "Because the two are legally separate entities, Cleveland Indians Baseball LP has no incentive or obligation to factor the profits of Sports Time Ohio into the franchise's accounting picture (TS, 2009)."

Both the Yankees and Indians' ownership groups see the revenues from television rights associated with the teams. However with this structure the team itself does not see the revenue and, therefore, will not become shared revenue. This is just one example of how the owners of a team can benefit themselves through related businesses.

Another way owners can tweak their profit stream to appear weaker financially is in the selling and buying of a franchise. This could play out in several ways often relating to interest associated with loans.

> The prospective team owner first creates a new ownership corporation. He then loans money to the company, which uses the loan as a down payment to buy the team. This loan, plus the interest payments, then has to be repaid to the owner from the subsequent income of the team, which lowers the team's stated profit. Once again,

> the owner pockets the money, and the accounting department records it as an expense (Eitzen, 2000).

The owners will create limited liability corporations or limited partnerships to purchase and operate their franchises through loans from the personal finances of the owner. As stated by Eitzen, the operating profits are repaid to the owner plus interest over the span of the next several years.

These strategic accounting practices used by owners serve to maximize owners' profits. The examples discussed are just a small portion of the many scenarios affecting the public perceived team financial stability, but when extrapolated throughout all teams in all four of the major professional sport leagues the implications of harm done to players and taxpayers is apparent.

Collective Bargaining, Revenue Sharing, and Salary Caps

The accounting models and practices have become of particular importance over the past decade as all of the major professional sport leagues have restructured their Collective Bargaining Agreements (CBAs). These CBAs, which like other unionized businesses, govern the relationship between the owner and players. An important piece of the CBA is revenue sharing models among the teams. Among the NFL, MLB, NBA, and NHL revenue sharing standardizes the flow of revenues. The "big four" sport leagues each have their own definitions dictating that the particular revenues of teams go into a shared pot, while other revenues remain local and with the team. Generally this pot of shared revenues aims to raise competitive balance throughout the league, meaning any team has the resources or the opportunity to win a championship in a given year. This means high revenue teams are giving a percentage of their revenues to low revenue teams, who are conventionally also small-market teams. The hope with revenue sharing is that through revenue redistribution the league as a whole can increase in value, helping each team into the black.

Through a league-controlled revenue sharing, all teams are given the opportunity to spend equally on talented players to increase revenues such as ticket, merchandise, and sponsorship sales. Leagues have, in parallel instituted salary caps to control the amount teams can spend on rosters.

Salary caps become the second important piece of the collective bargaining agreement conversation. Each league has different rules to govern how teams spend their money on talent to maximize profits (revenue after expenses). The salary caps work to guide teams in spending local and shared revenues on talent acquisition to optimize fan interest and their bottom lines.

Owners however are not as concerned with fan interest and the teams' bottom lines as they are with their own profits. This opens the door for owners to utilize creative accounting practices similar to the one Veeck created in roster depreciation allowance. Each league has their own story of different owners creating expenses to have teams appear financially weak. This perceived instability not only affects revenue sharing and player compensation but can also skew the tax dollar flow between owners and local governments. Tax streams, discussed later in the thesis, afford owners further opportunities to use creative accounting practices for their benefit.

Understanding the Spread

Each league has its own models for revenue sharing and salary cap restrictions aiming to control owner actions, and therefore each league has its own stories of owners circumventing sharing to take home additional profits. As stated above these practices by owners can affect players and fellow teams.

"In the 2009-2010 seasons, the Big Four, which includes the National Football League ("NFL"), National Hockey League ("NHL"), Major League Baseball ("MLB"), and National Basketball Association ("NBA"), generated over $21.6 billion in revenues (Dietl, Grossmann, & Lang, 2010)." Scholars Dietl, Grossmann, and Lang further state these revenues are governed by, "**...**each league's respective collective bargaining agreement, which establishes a player compensation system and a revenue sharing model (Dietl, Grossmann, & Lang, 2010)." The purpose of the revenue sharing is for a tighter range of payroll spending, preventing the large market teams from monopolizing the flow of high-priced free agents.

When discussing collective bargaining agreements, the ideas of revenue sharing, player compensation/salary caps, and taxes are separate ideas but are, in fact, inextricably linked. Revenue sharing and salary cap restrictions are the two points for particular concern under the notion of a collective bargaining agreement. The way these two are governed under

collective bargaining agreements differs amongst the major leagues in the U.S.

Revenue sharing concerns itself with the league creating revenue streams and requiring its teams to share those streams based upon different standards established by each league individually. Generally speaking, shared revenues primarily include television rights, ticket sales, and merchandise sales. The shared revenues are intended to help the lower income and small market franchises create a competitive balance throughout the league.

Specifically there are two main goals revenue sharing is designed to accomplish through the redistribution of revenue: first to ensure the league as a whole is in the black (profitable), and to second ensure the big and small market teams are on a level playing field. David Stern, former commissioner of the National Basketball Association, stated, "It's about coming up with a system, if you think about it, where every team has the same amount of chips" (Coon, 2012).

Revenue sharing is a layered idea. It reflects a question constantly facing the American economy at large, should those who make more money share their profits with those who make less? Across professional sports it has become generally accepted that it is, in fact, better for the league as a whole to share the majority of revenue streams. Sport is a different type of business where teams need each other to play and generate revenues. This makes solving the above question more layered.

The traditional model regarding revenue sharing and competitive balance recognizes a dulling effect. This idea, discussed and refuted by Justin Hunt, states that, "according to the dulling effect, revenue sharing reduces the incentives for clubs to invest in playing talent (Hunt, 2011)." The dulling effect argues this is because each club, "has to share some of the resulting marginal benefits of its talent investment with the other clubs in the league (Hunt, 2011)."

Hunt instead asserts, and proves through mathematical analysis, that rather there is a "sharpening effect" in revenue sharing. With this sharpening effect large-market teams benefit from the underdog sharing in the total league revenue. Sharing creates a more competitively balanced league where marginal revenue has been shown to increase up to a certain equilibrium point. There is a point in cross-subsidization for each league where overall utility is maximized through profits and wins. Each league attacks this aim of maximization and the totals designated to the players' share in a different manner.

NFL Revenue Sharing and SRS

The National Football League is seen to have the most successful revenue sharing and salary cap model of the big four major leagues in the United States. At the same time, though, the NFL revenue sharing is the least complex of the big four and states its purpose is to ensure every club distributions equitable totals from designated sources of revenue. The NFL's revenue sharing model has a long history. However, two relatively recent events significantly shaped the current practice, and further created what is seen as unshared revenue.

First in 1995, Jerry Jones, owner and face of the Dallas Cowboys (often referred to as *America's Team*), challenged NFL Properties as the exclusive rights holder of national sponsorships and marketing agreements for additional, unshared streams of localized revenue. This helped create a divide for NFL franchises between local, unshared sponsorship dollars and national, shared marketing totals, which affected the amount of revenue distributed. The NFL controls the official national sponsors, such as PepsiCo being the official beverage of the NFL, while teams control local sponsorship streams, such as X insurance being an official sponsor of the Dallas Cowboys. Jerry Jones succeeded in his challenge and created this separation between national and local revenues.

In addition, to this adjustment there was a restructuring of incentives for private-public financing strategies in the 2001 and again in the 2006 collective bargaining agreements. The restructuring made it more profitable

for franchises to either build new stadiums or have arena renovations. After the amendments in the 2001 and 2006 collective bargaining agreements, teams were incentivized for making these changes to their stadiums because they wouldn't share new revenues from luxury box, club seat, or personal seat licenses (Hunt, 2011). Personal seat licenses (PSL) are a consumer tax where fans are given the right to purchase a particular seat and season tickets to that seat. These fans are given preferential treatment year after year, however generally must renew their licenses each year. The shift for increased percentages of luxury box and club seating, as well as PSLs, in stadium structure often times out-prices the average fan from attending multiple games. Luxury box, club seating, and PSL revenues have become more important, though, over the past ten years with a boom in stadium revitalizations and construction because as an unshared revenue owners will work to maximize these profits to help their bottom-lines.

The NFL breaks down its shared and non-shared revenues as follows:

Table 1: Designation of revenues for revenue sharing and the salary cap

Category	Cap Calculation	Revenue Sharing	Allocation
Gate Receipts	Yes	Yes	40% Visitors
Broadcasts	Yes	Yes	Evenly
Concessions	Yes	No	-
Local Advertising	Yes	No	-
Signage	Yes	No	-
Local Sponsors	Yes	No	-
Parking	Yes	No	-
Novelties	Yes	No	-
NFL Entities	Yes	Yes	Evenly
Barter Income	Yes	No	-
3rd Party Stadium Usage	Yes	Yes/No	Situational
Business Insurance	Yes	No	-
Promotions	Yes	No	-
Club/Luxury Box	Yes	No	-
Premium Seat Revenues	No	No	-
Personal Seat Licenses	No	No	-

(Hunt, 2011)

As indicated in the chart nearly every revenue figure has an affect on the salary cap calculation for each team but only three revenues are considered in revenue sharing: gate receipts (or ticket sales), broadcast revenues, and NFL entity revenues. It is conventional among all four major sport leagues to share the revenues from ticket sales; the NFL, though, does require 40% of ticket sales to go to the visiting team. The NFL does not require a sharing of other revenues, like merchandise sales, which can be seen in other models. The broadcast and NFL entity revenues come from the league. The NFL has deals with CBS and FOX to broadcast games. Naturally the revenues from this deal and associated sponsorships are split among all teams, as they all play on CBS and FOX. NFL entity revenue considers brand licensing for many tertiary streams, such as NFL sponsored youth flag

football. There is a large opportunity given to owners to maximize their own unshared revenue streams, particularly after the 2006 collective bargaining agreement.

When allocating shared revenues among teams, the NFL does not consider the unshared revenues of teams, which are generally much greater for large market teams. With the restructuring of the collective bargaining agreement the NFL created a system called Supplemental Revenue Sharing (SRS) to combat the uneven totals that have arisen from the freedom given in unshared revenue generation. Supplemental Revenue Sharing has, "redistributed revenue of $895 million over a six-year period from top 15 revenue clubs to weak small markets (Hunt, 2011)." This served as a start to curve the inequities that may arise, but the issue is, in fact, that the SRS numbers reflect revenues and not profits. NFL owners entertain the thought that low revenue clubs may, actually, be more profitable than high revenue clubs given a lack of certain financial restraints, like debt and lower facility operational expenses. Profit shows true value according to some owners. However, the NFL may have a point in using revenues for SRS instead of profit because teams can use the creative accounting practices detailed earlier to create additional expenses detracting from the team's stated profits.

Despite the potential manipulation under the SRS model, the NFL has created salary cap restrictions to allow for more equitable competition for signing players on the open market. These caps serve as a way for the NFL to

control the monetary flow and leave less creativity in the hands of owners. For the most part, the salary cap is the total amount teams have to work with when signing players, making trades, and drafting rookies. The key, as mentioned earlier, is creating a revenue sharing model where incentives for investing in playing talent are at their highest. Generally, professional sport fans are drawn to teams who win. Winning brings in increased ticket and merchandise sales when the team has attractive talent or increased win percentages. Therefore it is important for NFL teams to maximize the talent they are able to fit into the cap in order to maximize unshared profits. Components of player contracts that count against the cap are base salaries, signing bonuses (which are apportioned over the life of the contract), and incentives. If these incentives are likely to be earned they are counted against the cap. (Gette, 1996).

The percentage of revenues shared is always under scrutiny during collective bargaining discussions because players want teams to have a larger portion of their revenues dedicated to player compensation. Owners conversely are more concerned with finding the point Hunt discussed where the teams maximize fan and team utility and profits.

Part of the salary cap and revenue sharing of particular concern in the NFL during the latest collective bargaining agreement conversations was affected by the reported team revenue figures. The NFL Players Association (NFLPA) has aimed to receive additional compensation for medical coverage of retired players. There are increased cited cases of brain damage within

the retired football player community. The NFLPA aims to bring some revenues to benefit these struggling individuals. The correct apportioned total is unclear in this case when the owners misrepresent the revenue figures to the NFLPA. This serves as one example of the effects stemming from fiscal misrepresentation on the part of the owners in the NFL, whereby revealing a greater picture of concern on the part of the NFLPA.

NBA Revenue Sharing and Creative Accounting Points

There is always uncertainty for players association in collective bargaining agreements since the teams are private businesses and do not need to report their financial statements to the government. As a result, players and local governments wonder whether the owners are revealing sincere financial instability or not. An interesting turn in the way the NBA's revenue sharing came as a result of the leaked financial documents for several franchises including the New Jersey Nets (now the Brooklyn Nets) and New Orleans Hornets (now the New Orleans Pelicans). This allowed for a greater public understanding of how the revenue sharing model works and the different accounting tactics employed by owners across the league. Many similar accounting practices were discussed previously. The exposure of NBA financial statements had particular implications to the use of player depreciation by NBA owners.

The New Jersey Nets used player depreciation of roughly $25 million as an expense in order to decrease shared revenues and tax obligation. Tommy Craggs discusses the implications of this in his article by stating, "If we're trying to arrive at [an] idea of how much money the Nets *really* made in 2004, we'll need to…knock out the $25.1 million RDA (player depreciation) (Craggs, 2011)." This is again because player depreciation is an intangible, paper loss. Craggs continues, "…and add the $9.1 million in tax

savings. Suddenly, [a] $27.6 million loss becomes a $6.6 million profit (Craggs, 2011)."

This has been an important point in the NBA collective bargaining conversations because David Stern has asserted that the NBA and its teams are not running in the black. Stern uses this as a bargaining chip to keep more revenue within the teams as opposed to increasing the players' share in profits. This may be a tricky way of viewing the overall financial wealth of a team because a team should be considered for a sum of its parts. Similar to a Ford motor plant, the motor division, exclusively, may have a negative revenue total. If there were a claim Ford is losing money that wouldn't be sound. The motor plant sells the product at a price which enables Ford to turn an overall profit when the final motor vehicle is sold. Upon every sale value is created for Ford (Craggs, 2011).

This is an interesting point and shines a new light. Should teams be strictly viewed as just the revenues and profits associated with the players on the court or are their tertiary profits adding to the bottom-line and the owners' wallets? Craggs makes a valid argument that a company is a total of all its parts, and should be viewed as such for many purposes and not just collective bargaining agreements. To expand upon the Nets example and add to Craggs point, the team can't be valued without seeing the numbers for other assets. This includes the recently opened Barclays Center (the Nets' arena), and the remainder of the revenues associated with the development of this new arena in Brooklyn. These associated revenues, because of the

holding company structure discussed earlier, affect the true value of the team and should change the revenue sharing/salary cap models used in collective bargaining agreements.

In addition, the players association had other qualms with how the league portrayed their losses in collective bargaining agreement talks. In preparation for the most recent collective bargaining conversations, the league reported losses of $370 million, but ESPN compiled a team of financial experts who were able to remove $250 million of the losses if player depreciation and interest associated with purchases of teams was not taken into account (Coon, 2012). When buying a team an ownership group and their limited liability corporation generally borrow money in the form of a loan. In 2009, for example, the New Orleans Hornets could have turned an operating profit had they not mismanaged their loan system during their transition from Charlotte.

Teams across the four sports often receive loans for the ownership group governing them, however the interest is being paid to the owner. This interest is seen as a profit for the owner of the team, but an expense and a loss for the team. The question around interest expense is a tough piece for players to swallow because teams are either mismanaging their loan system or that system is purposefully being manipulated by the owners.

Further, as the players assert, they should not be burdened with the costs associated with buying a team because when a team is sold the players do not share in the profit. The players associations do not have a voice in

management decisions and therefore feel they should not be hurt by the cost of owners mismanaging team financials. This concern of the players grows as owners are paying millions of dollars each year in interest to help cover part of the team's purchase, as the expense is spread over many years. "While these are real obligations and represent real cash going out the door, they relate to team ownership, in which the players do not share (Coon, 2012)."

Despite these demurs, the league proposed amendments under the new collective bargaining agreement with increased revenue sharing and a more stringent player cost containment. This would hopefully ensure the league as a whole is profitable first and then spread the remaining funds to small market teams to create more competitive balance. The players agree with robust team revenue sharing, but the league's proposal of player salary cost containment wasn't ideal for the players association (Coon, 2012). Previously the NBA had a soft player salary cap that would only tax a team slightly for going over. The league had hopes of creating a hard cap to lower league-wide salaries.

After the 2009, 2010 labor negotiations an agreement was settled with an emphasis on revenue sharing. The new model, featuring a complex formula to shift financial wealth of big-market NBA teams to the league's most needy teams, was fully phased in during the 2013-2014 season and saw a $140 million directed toward revenue sharing. This sum is compared to just $16 million of revenue sharing in the previous plan (Lombardo, 2012).

The NBA created this new system and their own original formulas without following any other leagues' models. With the new system the NBA's model requires teams to give a fixed annual 50% of total revenues less certain expenses, including arena-operating costs, into a shared revenue pool. Teams receive disbursements equal to the average team payroll for a given season. When an NBA team contributes less than the league average they are considered recipients; conversely large revenue teams who contribute an amount exceeding the average pay into the fund received by recipients (Lombardo, 2012). This revenue sharing model evidently reveals the hope of the NBA to bring financial and competitive balance amongst the markets.

Furthermore the NBA's shared revenues include sums from league revenues, such as national TV sponsorship, but the majority of shared revenues come from local revenues. The bottom seven in terms of revenue (the Milwaukee Bucks, Charlotte Bobcats, New Orleans Pelicans, Atlanta Hawks, Minnesota Timberwolves, Detroit Pistons, and Memphis Grizzlies) will receive a distribution on average of $16 million, which is an increase from the just under $6 million maximum in the previous collective bargaining agreement (Lombardo, 2012).

In addition, the NBA disregarded its old system of requiring teams to meet business performance standards developed by a tertiary consultancy, and now calls for small-market teams to generate a minimum of 70% of the league averaged team revenue to receive the full benefits of revenue-sharing.

This standard was created to keep teams from relying completely on shared revenues. By generating a minimum of 70% of the league average, teams are required to try and bring in revenue. Inversely, "Large-market teams must generate 130 percent of the league wide team revenue average. Should a team fall short of its expected revenue, it must make up the difference in its level of contribution (Lombardo, 2012)." This new plan simplifies the expectations, and in a way helps in ridding of some creative accounting practices. If teams do not recognize enough revenues then team will not benefit from revenue sharing. Even though teams can still manipulate financials, this new system helps decrease the practices.

MLB Revenue Sharing and Creative Accounting Points

Major League Baseball has taken a different approach to revenue sharing and player compensation than that of the NFL, with the updates to the collective bargaining agreement starting in the late 1990s. This change came about in 1996 mainly due to the dominance of the New York Yankees and Atlanta Braves through the earlier part of that decade. This was seen as an issue with the league's competitive balance. The league took it upon itself to create a system with higher competitive balance and, as a result, seven different teams won the World Series after 1996 in a ten year stretch: Florida Marlins 1997 & 2003, New York Yankees 1998-2000, Arizona Diamondbacks 2001, Anaheim Angels 2002, Boston Red Sox 2004, Chicago White Sox 2005, and the St. Louis Cardinals 2006.

The collective bargaining agreement in 1996 sought to discourage excessive spending by those teams who could afford it. The owners in the MLB are known for spending exorbitant sums on free agent players, and this collective bargaining agreement curved unnecessary inflation of star player spending by large market teams. Unlike the NFL and NBA, the MLB does not have a salary cap, but instead a competitive balance tax.

Developed in the 2007 collective bargaining agreement, a three-tier tax system was developed when certain salary cap levels are breached. "The three applicable tax rates under the 2007 CBA are 22.5%, 30%, and 40%. As a general rule, a club's applicable CBA tax increases one level for each consecutive year its Actual Club Payroll is above the Tax Threshold," which is

set each year (Dietl, Grossmann, & Lang, 2010). This discourages teams from spending over the tax threshold year after year by increasing applicable tax implications. The MLB system is different from the revenue sharing models of other leagues. "This system is not designed to compensate weaker teams in an attempt to ameliorate the risks associated with a large revenue gap. Rather, it was designed to remedy any improper…treatment of salary terms (Dietl, Grossmann, & Lang, 2010)."

The interesting piece of the MLB system is that 75% of the monetary stream created by these taxes goes to ancillary benefits for the players; a tax provision created to restrict excessive player spending and send additional funding to the players. This is an intriguing paradigm that exists for this tax system in the MLB's system.

Regardless, the remaining 25% stays with the MLB for an Industry Growth Fund, which is designed, "to promote the growth of baseball in the United States and Canada, as well as throughout the world… (Dietl, Grossmann, & Lang, 2010)"

Similar to the NFL and NBA, MLB also has a revenue sharing model amongst its teams to redistribute the "playing field." This provision of the MLB's collective bargaining agreement suggests two main sources of redistribution existing within the revenue sharing model: a base plan with a central fund component and a Commissioner's Discretionary Fund. The base plan component was designed to ensure each club contributes 31% of their net local revenues to a general pool, which is divided equally among all

teams. Net local revenue is defined as, "Local Revenue (gross revenue from all revenue areas like ticket sales, concessions, etc. minus Central Revenue, which is national television and radio, etc.) minus Actual Stadium Expenses" (Dietl, Grossmann, & Lang, 2010). Some owners have contention with this system, however, because large market teams who generally contribute more are distributed a sum equal to those who give less to the central fund. This table shows the point taken by some owners,

Table 2: MLB Base Plan Redistribution: 31% Net Local Revenues.

Club	31% Contribution	Distribution	Club Status
New York Yankees	$62,800,000	$42,075,000	Payor
Florida Marlins	$27,000,000	$42,075,000	Payee
Cleveland Indians	$31,000,000	$42,075,000	Payee
San Diego Padres	$47,500,000	$42,075,000	Payor
Total	**$168,300,000**	**$168,300,000**	

(Dietl, Grossmann, & Lang, 2010)

The chart shows four teams as an example of the base plan redistribution based on the 31% contribution from the team's local revenues. All four teams have different contribution totals because each team throughout the entire league brings in different revenue amounts throughout a given season. Despite the different contribution levels, all teams receive the same redistribution of $42,075,000, which is the given year's average contribution. The difference, either a surplus or deficit, of contribution less the distribution indicates whether a team is a payee or payor.

A large revenue team like the New York Yankees contributes over double the amount of a small revenue team like the Florida Marlins and receives an equal sum causing a loss in this regard for the Yankees. This is

one main avenue Major League Baseball uses to create competitive balance amongst its teams. As noted above, a club receiving a distribution greater than their 31% contribution (i.e. Florida Marlins and Cleveland Indians in this chart) has additional funds under the base plan.

The other main component of the MLB's revenue sharing plan gives the Commissioner control of a discretionary fund. This is supplemental funding that upon special request can be given in a sum of no more than $10 million to a team, detracting from the central fund of the base plan that is left over from revenue sharing (Dietl, Grossmann, & Lang, 2010). Maintained yearly, this discretionary pool, if not distributed, is returned in pro rate to all clubs. "While the Commissioner is not required to satisfy distribution requests, he is prohibited from allocating more than $3 million to any individual club in a given year (Dietl, Grossmann, & Lang, 2010)."

In 2011 Bud Selig exercised his ability to act in the best interest of Major League Baseball as he disbursed $25 million to the New York Mets' owner Fred Wilpon (Shaikin, 2011). The aim was to help a team who had a winning record in just over half of the 25 seasons during Wilpon's ownership, despite being in the largest market. Selig hoped for a re-emergence of the Mets and a stimulus to the popularity of baseball in the nation's largest city.

NHL Revenue Sharing and Creative Accounting Points

The National Hockey League adds an additional ripple to the revenue sharing and player cost constraint conversation with its Player Compensation Cost Redistribution System (PCCRS). The stated goal is for high-revenue clubs to redistribute a certain percentage of their revenues to low-revenue clubs for player compensation. The NHL re-designed the system to increase the ability of all teams to allocate a minimum of 25% of an accepted team payroll range on player specific compensation (Dietl, Grossmann, & Lang, 2010). Of all the salaries teams expense (coaching staff, physical trainers, executives) the National Hockey League expects teams to spend at least a quarter of revenues on player salaries. The NHL has established four sources for the basis of the PCCRS: these are described in the table below.

Table 3: Four Funding Sources in the NHL

Funding Source	Percentage of Commitment	Explanation
Central League Revenues Phase	Maximum of 25% redistribution requirement	If central league revenues exceed $300 million, 50% of excess may satisfy up to 25% commitment
Escrow Account	Up to 1/3 remaining commitment	Amount from top ten revenue clubs cover up to 1/3 remaining amount
Playoffs Funding Phase	50% remaining commitment	Playoff teams contribute % of playoff tickets sold, depending on revenue ranking
Supplemental Phase	Remaining Amount	Funded by top ten revenue clubs, based on their revenue compared to 11th ranked revenue club

(Hunt, 2011)

The first phase of the PCCRS, Central League Revenues Phase, sets a threshold of revenue that necessarily is met prior to triggering the sharing of the phase. Once the central revenues, such as broadcasting and licensing revenues, exceed the $300 million total in a year, half of the excess can help teams satisfy the 25% requirement established above (Hunt, 2011).

The next phase, referred to as the Escrow Account, comes into play after the Central League Revenues Phase if there is a remaining commitment of teams to meet the 25% level of player compensation. It allows for 1/3 of the remaining commitment to be redistributed. This is a back-up plan of sorts where if the league-wide player compensation exceeds the targeted

share for player salaries, there is a redistribution commitment to maintain an increase in competitive balance (Hunt, 2011).

The third source of funding comes from certain playoff revenues. Playoff revenues are not always planned, as teams do not know if they will make the playoffs. Therefore they are a throw in and owners have conceded to sharing these additionally generated revenues. Regardless of the redistribution from the first two phases, funding in this phase can cover 50% of the remaining commitment of teams in the playoffs (Hunt, 2011). If teams make the playoffs but are still unable to meet the 25% requirement, ticket sales come to their aid in order to balance out salary related expenses. Based on the level of revenue generation amongst playoff teams, there are varying requirements for revenue sharing in phase three. These rules are shown in Table 4.

Table 4: Calculating the redistributed playoff revenues in phase three

Revenue Ranking	Calculation of Playoff Distribution
Top 10 Gross Preseason and Season Revenues	50% total ticket value, net taxes, for one full-priced, sold-out regular game
Middle 10 Gross Preseason and Season Revenues	40% total ticket value, net taxes, for one full-priced, sold-out regular game
Bottom 10 Gross Preseason and Season Revenues	30% total ticket value, net taxes, for one full-priced, sold-out regular game

(Hunt, 2011)

The final source of funding in the NHL's PCCRS model is the supplemental funding phase. This phase requires top-ten revenue clubs, on a

percentage basis, to satisfy any remaining balance under the PCCRS 25% commitment. Based on a formula related to revenue generation, those teams are expected to help low revenue teams (Hunt, 2011). The formula compares a team's revenue value to the relative median and calculates the supplemental funding. It ensures that the highest revenue clubs add in the most revenue. There is a cap with two restrictions limiting the amount top ten clubs are required to contribute. First a team is not asked to contribute more than 20% of their revenues to the supplemental funding phase. Any excess over this 20% is dispersed back to the top ten teams on a pro rata basis. The second restriction makes certain no team's revenue rank will be altered as a result of the supplemental funding phase. If the team's rank would change, the contribution is capped that exact amount (Hunt, 2011).

These four phases help set the stage for revenue sharing and therefore player compensation. Much like the other four leagues, the discussion of expense consideration lends itself to creative accounting practices by owners to control the amount they let the team share with fellow franchises and players alike. In all four phases, top revenue teams are asked to help stimulate low revenue teams. With this in mind small market or low revenue teams may find complacency. There is no need to exert effort to be a top tier team if they do not see the reward. Again the discussion comes back to profit and utility maximization for owners. When the owners see some form of taxation coming in their direction with marginal increases in revenues, they will find ways to expense out revenues or limit revenue

streams. The National Hockey League's PCCRS, in a way, entices low revenue teams to accept subsidies and not field competitive teams. This issue reveals a need for the NHL to ensure a minimum amount spent on player talent.

Creative accounting practices can be seen across the NHL and one such example exists in Philadelphia. Ed Snider, owner of the Philadelphia Flyers, claimed a team loss of ten percent on the team revenues. However, similar to the ownership structure of the New York Yankees and Cleveland Indians (detailed on page 14 & 15), Snider owns Comcast SportsNet, the broadcasting company of the Flyers, and Global Spectrum, the group who operates the Flyers' arena. The Flyers divert broadcasting revenues and pay rent to Spectrum and claim rent expense, this is just shifting money from, "one of Snider's pockets to another (Elliott, 2004). The NHL has created a unique revenue sharing model, but one that is still be manipulated by owners for their own personal profits.

Leveraging Public Interest

Aside from the player compensation and revenue sharing conversations, owners also have an interest in creative accounting practices in the interest of receiving public subsidies and aid from local governments. As mentioned in the NFL section, there has been a stadium boom over the past five to ten years. Owners have used the "need" for new stadiums or renovations as a point of emotional leverage with the public in order to receive public funding. This has become important for the big four leagues because one major source of unshared revenues comes from luxury box, club seating and personal seat licenses.

In order to maximize unshared revenues and personal profits on the part of owners, there is a call for new stadiums to grow these types of stadium seating structures. The main concern with this shift lays particularly upon the notion that taxpayers have contributed the majority of funds to stadium constructions.

As the new stadiums increase the percentage of high-priced seating, there is a negative consequence where many of the taxpayers who help fund these new stadiums are priced out of attending the games. If the local taxpayers and governments do not financially support the new stadium, teams often threaten moving to a new city, one that will aid in a new stadium. Given this, the fans who are emotionally invested in their professional sports teams and give money to fund the new stadiums are often the ones priced-out of the games. The situation becomes a "catch-22" for taxpayers and local

governments. This point has been the start of the conversation on the accounting and funding for new stadiums over the past ten years.

There was a period where teams were expected to find the majority of funding for stadiums from private sources, whether that be from the owner, team savings, or private-backers. However there has been a switch, as these two examples indicate.

In Minnesota, the Vikings wanted a new stadium, and threatened to leave. While the Minnesota legislature faced a $1.1 billion budget deficit, it still extracted $506 million from taxpayers as a gift to the team. This help with roughly half the cost of the new stadium (Easterbrook, 2013). This is a prime example of how the Minnesota Vikings ownership leveraged their importance in the Minneapolis market to receive a large handout from state government who was already facing a staggering financial deficit.

The next example indicates how the City of Santa Clara is managing the new stadium being built primarily for use by the San Francisco 49ers in the 2014-2015 NFL season. In Santa Clara, California, the city broke ground on a $1.3 billion stadium primarily for use by the San Francisco 49ers. The deal officially includes $116 million in public funding, with private capital making up the rest. However, a new government entity, the Santa Clara Stadium Authority, borrowed roughly $950 million, largely from a combination of financial institutions led by Goldman Sachs. This provided the majority of the "private" financing. The board members of this new Santa Clara Stadium Authority are the members of the Santa Clara City Council.

This indicates, in effect, the city of Santa Clara is covering most of the "private" funding. If something in the payment goes awry, it is likely the taxpayers will take the hit. If a true private firm wanted to finance the stadium construction that would be a viable solution, however in this example members of the city council are making a deal with private capital firms. If the group is not able to pay back the nearly $1 billion loan then it is likely the public will have to pay it back through taxation.

The stories continue in NFL cities across the country, two such examples are in Seattle and Pittsburgh. The Seattle Seahawks opened CenturyLink Field in 2002, "…with Washington State taxpayers providing $390 million of the $560 million construction cost (Easterbrook, 2013)." The Washington taxpayers financed nearly 70% of the stadium, despite the Seahawks being owned by Paul Allen. Allen is one of the richest people in the world. The Seahawks payback the state roughly $1 million per year as a tenant, "…in return for most of the revenue from ticket sales, concessions, parking, and broadcasting (all told, perhaps $200 million a year). Average people are taxed to fund Allen's private-jet lifestyle (Easterbrook, 2013)."

The Pittsburgh Steelers serve as the next example. One of the most storied franchises in all of America's four major professional leagues, the Steelers, who play at Heinz Field, have won six Super Bowls, the most of any franchise. "Pennsylvania taxpayers contributed about $260 million to help build Heinz Field—and to retire debt from the Steelers' previous stadium (Easterbrook, 2013)." Again even though the taxpayers funded a large

portion to build the stadium the majority of game-day and television revenues are directed toward the ownership, the Rooney family. Additionally the Rooney family also retained $75 million that Heinz paid to name the facility (Easterbrook, 2013).

Governments may argue that these are valuable investments, and this is not unfounded. Professional sport teams are profit generators. However, many of these investments come at a time when local and state governments are cutting funding for education and health services among others. This is demonstrated in the Cincinnati Reds' new stadium where the sport-related subsidies exceeded the amount cut from health and human services in Hamilton County, Ohio (Easterbrook, 2013). If this was not bad enough for taxpayers, the elevation in ticket prices associated with new stadiums decreases the likelihood of the average taxpayers attending a game with their family.

An interesting dimension to public subsidization of stadiums comes when leagues and teams sign contracts for exclusive rights to license images on game days. For example, FOX and CBS have the rights to broadcast from NFL stadiums. In general, taxpayers have provided the majority of funds to build NFL stadiums, and while teams pay local or state governments modest rents, they retain exclusive rights to license theoretically public images. The privatization and capitalization of public funds appears to be questionable when the public sees no direct return on the "investment." Judith Grant Long, a professor of urban planning at Harvard University, has calculated taxpayers

provide 70% of the capital cost of NFL stadiums; only the New England Patriots, New York Giants, and New York jets pay 75% or more of their own stadium capital costs. (Easterbrook, 2013).

Whether purposefully or not, local governments understand this situation in professional sports and concede to the owners. Professional sport teams are generally a loved aspect of cities; teams drive, among other aspects, love for a city and tourism revenues. The teams help restaurants and bars; local companies thrive because of the influx of foot traffic and eyes on the games. Sports teams ideally can bring a large influx of dollars to a metropolitan area. On average, fans view sports in terms of wins and losses, championships won, and legendary players.

With an economic lens, though, professional sports teams appear to be a "publicly subsidized business monopoly" (Eitzen, 2000). The NFL, NBA, MLB, and NHL all exercise control of supply over their sports, with leagues acting as a cartel of sorts as a group of competitors who control the entry and exit of fellow members and join to create mutually beneficial economics. This cartel structure reduces competition in geographical or market areas, which would cost owners more money. There is control and regulation on spending for services of talented players, acquisition of new talent through a draft, and how many teams can be in a league and their location.

This brings about a question of legality. There have been several anti-trust court rulings preventing professional sport leagues from being viewed as monopolies. One such example is, "the 1961 Sports Broadcast Act allowed

pro sport leagues to sell their TV rights as a group, without being subject to U.S. antitrust laws (Eitzen, 2000)." As a result leagues are afforded the opportunity to sell the rights to televise all of their games.

This sort of structure is ideal for owners because there are rare additions into the cartel, making professional sports teams considered to be scarce commodities. Economically such commodities appreciate in value more rapidly than other investments. "In 1998, *Forbes Magazine* estimated that the 113 professional teams in football, basketball, baseball and hockey were worth an average of $196 million each — up from $146 million the year before (Eitzen, 2000)."

The idea of scarcity for commodities has long been accepted as a means of value appreciation in economics, marketing, and psychology. The appreciation is applicable for ownership and fans. Time constraints and high-values can influence the appreciation (Drexel University, 2005). It is not often a team is sold, and this puts a time constraint pressure on potential ownership groups. The groups have a perception of high-values associated with the teams in ticket, merchandise, and sponsorship sales. This drives the appreciation of team value year after year.

Fan psychology can also lead to team value appreciation. Live sport is not renewable; sport is consumed the moment it is seen. Though fans can watch a game on television or on replay, there is something special for fans when attending a championship game or an important match against a rival

side. The time constraint drives fans to consume these important moments, raising the demand for tickets perceived as high-value.

Potential ownership groups and fan psychology are just two examples of quick value appreciation. These compounded can show how the scarcity of teams in the professional sport market drives sport commodities to appreciate in value yearly.

Tax Breaks and the Government Sweethearts

The stadium issues discussed previously are the most visible form of public subsidization transferring into help for professional sports. However, owners still maintain the financial difficulty of teams to keep public help coming. The public continues to help professional sport teams' owners through tax breaks and "sweetheart deals."

Owners see tax help in a bevvy of ways with their sports teams. Professional sports teams exist as scarce commodities, which economically speaking appreciate quickly. When a professional team is sold, the IRS sees the profits for the owner as capital gains. Given the current tax code, lower tax rates are applied to these profits than other sources of income. This allows owners to turn a vast profit, while the teams are still seen as public subsidies. Subsidies for stadium renovations help in this regard as well by increasing the value of a team. The Cleveland Indians of MLB, for example, had a market value of $81 million in 1993; the next year the team opened a new stadium and the value climbed to $100 million. By the time the team was sold in late 1999 the valuation climbed to $320 million; there was a return of 295% in just seven years, meaning large capital gains for the former owner (Eitzen, 2000).

The second tax benefit is a unique one that siphons money into the pocket of owners, as an indirect benefit that has hefty tax implications. This occurs, "when a business buys game tickets, stadium food, or seats in a [luxury box], then hands them out to its favored patrons, it is allowed to

write off half the cost as a business expense (Eitzen, 2000)." Writing off the tickets as business expenses results in taxpayers covering a portion of the cost of employees and business prospects attending sporting events. Corporations are therefore inclined to continue to offer this perk because of the tax write-off. This also helps maintain inflation of ticket and luxury box costs. The indirect corporate subsidy, "alone costs the federal treasury more than $80 million in lost tax revenue (Eitzen, 2000)."

Additionally, local governments continue the subsidization with certain sweetheart deals, which serve as a tangible "icing on the cake." These sweetheart deals start with simple aspects like renovation and up-keep of roads and parking lots necessary for fans to get to the games. Cities will often times help owners with, "moving expenses, practice facilities, office space, land, and special investment opportunities to entice them to stay or to move their team to the city (Eitzen, 2000)." These are additional forms of help afforded to owners in hopes of keeping teams in the city.

As discussed previously, the player depreciation has tax implications as well, whereby allowing team owners to use these deductions as tax losses. "No other business in the United States depreciates the value of human beings as part of the cost of its operation (Eitzen, 2000)." It is interesting to note despite owners writing-off player depreciation, players who diminish in value are not able to have a personal tax write-off.

The tax breaks and sweetheart deals, discussed in this section for owners, is just the tip of the iceberg. As detailed throughout the thesis, the

current revenue sharing and player compensation models in professional sports afford owners the opportunity to maximize personal profits at times in spite of the implications for their teams. The models coupled with the varying public subsidization avenues of the private sport industry reveals a need for a solution to the creative accounting practices.

A Potential Solution

There is a definite need to understand the true value of a team with varied strategic accounting practices detailed throughout the previous sections of the thesis,. When discussing collective bargaining agreements, the implications on revenue sharing and player compensation, owners are guarded. This appears to be a natural business mindset. Owners want to protect and retain as much of the revenue created by their teams, assets, and associated companies as possible. As shown through the questionable accounting practices regarding revenue and expense reporting, players are unable to see the true value of teams and the overall financial wealth of the league. This is critical to understand when calculating a fair level of player share in league profits.

Additionally, owners leverage the emotional and economic importance of teams to increase the value of teams and, in turn, increase the revenue siphoned into their pockets. The public and local governments deserve to know the true value and worth of professional sport teams. This understanding is especially important, when these parties are directing millions of tax dollars for stadium construction and sweetheart deals; as well as giving owners tax breaks, which could instead help raise revenues for the state and municipalities to offset the cost of stadiums. If states across the board created a uniform stance when it comes to professional sport teams, then owners wouldn't have as much leverage; these teams could bring additional revenues to their cities.

This is not the current reality, however, nor is it on the horizon. Given this situation, wouldn't it be appropriate for taxpayers and local governments to expect a certain level of transparency or understanding in the valuation of the teams who ask a great deal, in monetary terms, from them? This appears to be a pivotal question for now and in the future.

Every year, Forbes Magazine attempts to calculate team valuations. They paint a picture of teams valued upward of billions of dollars. The magazine is said to use a variety of calculations in their valuations, including sponsorship, fan reach, and associated business. This evidently paints a different picture than the one that league executives reveal to players when collective bargaining agreement time comes. Forbes claims to use a full picture approach, but seems to overstate the bottom-line of a team.

Getting close to a true idea of where a team is in a given year is important for players, taxpayers, and local governments alike. Nearly every professional sports team in America is a private entity, however, there is no requirement for a release of financials, which would give the full picture of true team wealth. As a result, the public should use certain sets of data that are available year after year to calculate percentages like player compensation caps, revenue sharing, taxation, and public subsidies.

A constant struggle for owners is maximizing fan interest while simultaneously maximizing team revenues. The largest expense for teams, based on league standards, is player expense. Therefore there is an

important question of how can a team structure their player salary levels in order to fit the needs of their fans?

Method of Using Ticket Sales

The thesis attacks this question in three professional leagues, Major League Baseball, National Basketball Association, and Major League Soccer. Ticket sales figures are made public after games, as are player salaries at the end of each season. These are critical in solving the concurrent maximization of team allotment for player salaries and ticket sales. The hope is for owners to use this quantitative analysis as a potential means of increasing efficiency within their teams and, in turn, relax their creative accounting practices. The increased team-spending efficiency will allow owners to turn greater team profits.

This thesis gives a proposition to utilize ticket sales figures as a means to figure a better picture of the inancial status of teams. Given the assumption that teams spend a relatively equal percentage on utilities and ancillary expenses in relation to the size of their stadium, ticket sales can indicate fan and business interest in a team for a means of valuation.

A regression analysis was used to test how fans of different teams in different leagues respond to the standard deviation of salaries on a team. Do fans increase their ticket spending when there are a few All-Star players on a team and lesser-paid role-players, i.e. the Miami Heat, to fit in under the salary tax? Or do fans like a balanced budget approach? Or is the salary dispersion of a team inconsequential to fans?

These questions led to the testing payroll information's affect on attendance. From the seasons of 2001 to 2012 information from the MLB, MLS, and NBA was taken to understand a potential relationship. Total payroll, average salary, median salary, standard deviation of salary, the top 3 players' salary, and the sum of those three players' salary were calculated based on figures provided on the websites of USA Today, the Washington Post, InsideHoops, MLS Players, and bigapplesoccer.com. The aim was to provide regression analysis from the NFL as well but there wasn't enough complete information available for the NFL salary and attendance figures.

The attendance figures of games played, total attendance, average game attendance, and percentage of stadium filled, as well as those same figures for home and away games were calculated based on figures provided on the websites of ESPN and kenn.com (for the MLS information).

Additionally in order to paint a better picture of each city's economic landscape, total population and per capita personal income figures were retrieved from city-data.com. Population and income help provide additional information on potential other factors in attendance change. Generally there would be an expectation that with higher population and income ticket sales would increase as well.

The information gathered from these sites allowed for a regression analysis to ~~be run~~ test~~ing~~ attendance as the dependent variable against independent variables of payroll and salary distribution or deviation on a team. The standard deviation of salary was used as the measure of salary

Comment [RP1]: Should explain that the standard deviation of salary was used as the measure of salary dispersion. The greater the standard deviation, the larger the gap between the highest and lowest paid players.

dispersion on the team. High standard deviation reveals a team who pays large amounts to a few players, and then less to the rest of the team. A low standard deviation is found on the team with evenly dispersed payment to players. There was additional testing performed with population and income serving as added independent variables to create a more complete picture, but they do not serve as the focal point of this analysis.

The results of the regression analysis can be seen at the end of this section and reveals interesting information about the fans of each major league with differing result patterns for each. The most important findings to take away from the regression analysis, for the purpose of this thesis, are the t-statistic for PAYROLL and STDEVSAL. These values, in relation to 0, indicate how responsive fans/attendance can be to changes in payroll and the deviation, dispersion, of salary amongst teammates. The further away from 0 in a positive direction, especially greater than 2, indicates a strong relationship between the stated independent and related dependent variable; inversely, a negative indicates an indirect relationship. A brief explanation of the results for each league can be seen after the regression results for that respective league.

MLB Regression Analysis

Quantitative Regression Analysis of MLB Attendance and Payroll 2001-2013

Dependent Variable: Attendance

Variable	Coefficient	t-Statistic	* (statistical significance)
C	916560.6	1.209182	0.2277
Population	0.122383	1.346091	0.1794
Income	2.826280	0.198790	0.8426
Payroll	0.021436	10.29479	0.0000
Standard Deviation Salary	-0.224718	-4.713254	0.0000
R-Squared-	0.818312		

The regression of the MLB points to the notion that fans will increase their spending and interest in a team the larger the payroll becomes as indicated by the t-statistic being upwards of a value of 10 with a substantially strong probability. However, the fans do not respond to the spending on particular players. Their interest does not rest upon having the top all-star players on the roster, which can be attributed to the fact that baseball requires more players than say the NBA or MLS to have a successful team. Not only does a team need the starting nine players for baseball, but also a pitching rotation with depth is key for success. This is an interesting take where fans appreciate team spending but do not necessitate spending a large sum on particular players, where role players take a salary hit in order to afford those All-Star talents.

MLS Regression Analysis

Quantitative Regression Analysis of MLS Attendance and Payroll 2004-2013

Dependent Variable: Attendance

Variable	Coefficient	t-Statistic	* (statistical significance)
C	188303.0	2.113468	0.0373
Population	0.000842	0.244287	0.8076
Income	0.961730	0.429049	0.6689
Payroll	0.004404	0.308251	0.7586
Standard Deviation Salary	0.048536	0.474912	0.6360
R-Squared-	0.10585		

The MLS fans seem to take a different stance than those of the MLB and NBA. As evident by the low t-statistic values neither payroll spending nor the deviation of salaries among players has a strong effect on fan attendance. This is an important note to MLS owners because it shows investment in high-priced talent is not necessary for their fan bases. Instead, owners may want to focus their spending on the fan experience, affording fans entertainment at half time or creating marketing schemes for certain games as drivers, which would increase attendance.

NBA Regression Analysis

Quantitative Regression Analysis of NBA Attendance and Payroll 2001-2012

Dependent Variable: Attendance

Variable	Coefficient	t-Statistic	* (statistical significance)
C	576641.9	17.66363	0.0000
Population	0.007188	2.439626	0.0153
Income	-0.413848	-2.506924	0.0127
Payroll	0.001256	2.147202	0.0326
Standard Deviation Salary	0.010040	1.590261	0.1128
R-Squared-	0.165464		

The NBA regression analysis shares a similarity with the MLB in that their fans respond to more spending on the team as a whole. The NBA fan differs from those in the MLB in that there is more responsiveness to a roster with increased standard deviation. This supports the general trend in the NBA to sign two to three All-Star caliber talents in order to drive not only fan support but also wins. The Boston Celtics signed three star talents in Kevin Garnett, Ray Allen, and Paul Pierce and stood atop the league as champions. The Miami Heat were next with signing LeBron James, Chris Bosh, and Dwayne Wade and have won two championships to this point. Not only is signing all-stars and filling the remaining space in the cap with veteran role players a championship winning formula, but it seems to also help in garnering fan support and ticket dollars.

This regression approach can be expanded upon if owners gave full transparency to merchandise sales and television ratings in addition to ticket sales. Owners can use the model to understand the responsiveness of their fans as a means to be equitable to their players, taxpayers, local governments, and fans. This can breed increased spending efficiency and less of a need for creative accounting practices that come with ethical questionability.

The regression model serves to help expand revenues for owners, but it does not necessarily give owners an incentive to stop their creative accounting practices. ~~Though not perfect, this~~The model gives owners a potential solution to how teams could spend their salary-designated dollars without "bending" the rules. With a greater emphasis on revenue generation, as detailed in the regression, teams and leagues could rely less on government subsidies. However, in the long run the government and taxpayers would need to lead in the elimination of the creative accounting practices.

The regression highlights the differences and preferences across the MLB, MLS, and NBA, but is not a creative accounting solution. Instead, the goal of the analysis is to give insight on revenue generation to help teams if rules change in relation to creative accounting or public subsidies. This model helps to provide an alternative to the creative accounting practices, but unless owners are required to stop the practices by the government, it is unlikely to see any change.

Concluding the Journey

The goal of this thesis was a simple one with complicated avenues: explore the accounting practices of owners in professional sports. These practices have current relevance as all the major professional sport leagues in the United States have restructured their collective bargaining agreements in the past five years. Owners create personal salaries, broadcasting rights, and contracting fees, among others, to increase operational expenses. These practices aim to increase their personal profits with little regard for shared revenues and players' deserved shares. Additionally, the practices have important implications for the everyday Americans as taxpayers. Owners leverage taxpayers' emotional ties to teams for public subsidization of their private teams. Furthermore, nearly every state government supports the professional sport teams in their region. Given this, the thesis aimed to investigate and propose a potential solution to the creative accounting practices of professional sport team owners.

The first step was a discussion on the accounting practices used by professional sport owners, the structuring of the big four professional sport leagues, and how they govern revenue sharing and player compensation in their leagues. The NFL, MLB, NBA, and NHL all differ slightly in the structures of percentages shared among teams and this affects the way players are paid. Some of the leagues have a hard cap that sets a maximum

that teams can spend on their rosters; others have soft caps, when breached bring tax revenues to the league for further sharing. With revenue sharing and salary capping, leagues aim to create competitive balance and maximize league-wide popularity and profitability. Even as this is the goal for all four major professional leagues, the one common thread running through all of the major sport leagues is the issue of owners attempting to hide or expense out their revenues. This creates the most personal profit possible but in the end skews the valuation of these teams and detracts from league-wide competitive balance. Understanding the value and bottom line of teams is important when players look for fair compensation and ancillary benefits, such as medical coverage, for all players, current and former.

The next piece of the thesis explored several examples on how owners leverage the perceived, emotional and financial, importance of the team to a given city to extract as much public, monetary subsidization as possible. Traditionally sport teams were privately funded entities, however, owners have been able to shift funding to public sources by, often times, threatening a city move if their requests were not obliged. The use of public funds for stadiums has seen a drastic increase since the turn of the century across the country, generally during periods of education and human services cuts. Owners used their similar creative accounting practices in these cases to plead their team's financial instability as a means to receive public subsidization. Generally, local governments not only yield to these requests but also make it highly profitable for owners of sport teams. Through tax

breaks and sweetheart deals there is an "icing on the cake" for owners to maximize their private profits on a publicly subsidized business. Aid in constructing and revitalizing stadiums coupled with tax breaks and sweetheart deals, have increased owners' personal profits exponentially without requiring the amounts to be shared with taxpayers or local governments.

With these practices in mind, this thesis proposed an alternative to curve the need for the commonly detrimental creative accounting practices. Utilizing ticket sales as a potential important variable, owners can create more efficient cost structuring. If owners can increase their efficiency in player salary structuring, there is less of a need to use questionable accounting practices. The practices serve to increase their personal profits, but this regression model can step in and serve as a replacement.

Even though ticket sales were used as the tested variable in the regression, team owners could also use this model with merchandise and sponsorship sales figures to focus on how player salary spending affects these revenue streams as well. Ultimately, this shift would be realized only if owners were required by the government and taxpayers to halt their creative accounting practices.

Taxpayers and local governments should call for a regulation and shift in creative accounting practices. By using fan interest as an indication of team values, players, taxpayers, and local governments can start to better

understand the value of a team when calculating percentages of revenue sharing and aid given to the owners of professional sport teams.

The thesis sought to not only explore the current state of accounting practices in America's professional sports, but also open the eyes of the public and hold owners accountable when claiming financial instability on teams generating massive private revenues.

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Appendices

MLB Regression Results

Dependent Variable: HTOTATT
Method: Panel Least Squares
Date: 07/28/13 Time: 06:22
Sample: 2001 2011
Periods included: 11
Cross-sections included: 28
Total panel (balanced) observations: 308

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	916560.6	758000.6	1.209182	0.2277
POP	0.122383	0.090917	1.346091	0.1794
INC	2.826280	14.21739	0.198790	0.8426
PAYROLL	0.021436	0.002082	10.29479	0.0000
STDEVSAL	-0.224718	0.047678	-4.713254	0.0000

Effects Specification

Cross-section fixed (dummy variables)
Period fixed (dummy variables)

R-squared	0.818312	Mean dependent var	2458517.
Adjusted R-squared	0.790308	S.D. dependent var	722656.4
S.E. of regression	330920.0	Akaike info criterion	28.38326
Sum squared resid	2.91E+13	Schwarz criterion	28.89191
Log likelihood	-4329.023	Hannan-Quinn criter.	28.58665
F-statistic	29.22073	Durbin-Watson stat	1.197885
Prob(F-statistic)	0.000000		

MLS Regression Results

Dependent Variable: HTOTATT
Method: Least Squares
Date: 07/28/13 Time: 06:28
Sample: 1 96
Included observations: 96
Newey-West HAC Standard Errors & Covariance (lag truncation=3)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	188303.0	89096.72	2.113468	0.0373
POP	0.000842	0.003448	0.244287	0.8076
INC	0.961730	2.241538	0.429049	0.6689
PAYROLL	0.004404	0.014287	0.308251	0.7586
STDEVSAL	0.048536	0.102199	0.474912	0.6360

R-squared	0.105859	Mean dependent var	260277.8
Adjusted R-squared	0.066556	S.D. dependent var	91016.23
S.E. of regression	87935.25	Akaike info criterion	25.65727
Sum squared resid	7.04E+11	Schwarz criterion	25.79083
Log likelihood	-1226.549	Hannan-Quinn criter.	25.71125
F-statistic	2.693407	Durbin-Watson stat	0.981936
Prob(F-statistic)	0.035780		

NBA Regression Results

Dependent Variable: HTOTATT
Method: Least Squares
Date: 07/28/13 Time: 06:33
Sample: 1 305
Included observations: 303
Newey-West HAC Standard Errors & Covariance (lag truncation=5)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	576641.9	32645.71	17.66363	0.0000
POP	0.007188	0.002947	2.439626	0.0153
INC	-0.413848	0.165082	-2.506924	0.0127
PAYROLL	0.001256	0.000585	2.147202	0.0326
STDEVSAL	0.010040	0.006314	1.590261	0.1128

R-squared	0.165464	Mean dependent var	704816.1
Adjusted R-squared	0.154262	S.D. dependent var	94774.63
S.E. of regression	87158.56	Akaike info criterion	25.60521
Sum squared resid	2.26E+12	Schwarz criterion	25.66649
Log likelihood	-3874.189	Hannan-Quinn criter.	25.62973
F-statistic	14.77112	Durbin-Watson stat	0.595741
Prob(F-statistic)	0.000000		