

Action:

Memorandum for: Oakland Athletics Investment Group, LLC
From: Conor Furey
Subject: The Alignment of Oakland Ballpark Interests with Best Practices from the San Diego Construction Model

Purpose:

This analysis is intended to identify the factors at play in the alignment of interests between the community and a baseball club in the development of city land for new ballparks. As industry financing trends towards public funds, best practices for Oakland's construction plans can be gleaned from San Diego's model in maximizing public utility through a public-private partnership.

Background:

The Oakland and Tampa Bay situations highlight two cities that have not been able to translate recent on-field success into commercial returns due to outdated stadiums that lack premium revenue streams. Urgency colors the backdrop of Oakland's proposed plan to move its ballpark to the East Bay's Howard Terminal — Oakland has both an expiring current lease agreement in 2024 and a renewed need to rejoin the MLB's revenue sharing program following their second year of exclusion.¹ With the economic hit of the pandemic, both public contributions to stadia and hopes of relocation or expansion look to be on hold,² thereby lowering clubs' leverage. Recent strides in securing the city's share of Oakland Coliseum site, which looks to demand a market price³ above its 2019 50% acquisition for \$85 million. According to Ken Rosenthal's January report, a key dimension of the club's planned redevelopment of the Oakland Coliseum is to help bankroll its privately financed park.⁴

The Athletics' Howard Terminal plans include A 2018 proposal details 55 total acres, up to 2.27 million square feet of commercial development, an estimate additional 4,000 dwelling units and 400 hotel rooms.⁵ Proposed design would slate for the smallest capacity (35,000 fans) among MLB ballparks. Private financing terms range from an estimated \$850 million⁶ to more recent estimates of \$500 million.⁷ This section will review recent and relevant trends in three areas: financing, the leverage of current property, and the growing popularity of mixed-use real estate developments.

¹ The 2017 CBA included a provision that phased out the Oakland exception with the Athletics' share of revenue sharing reduced to 75% 2017, 50% in 2018, 25% in 2019 and 0% in 2020 pending the resolution of its stadium situation. (Cot's Contracts: <https://legacy.baseballprospectus.com/compensation/cots/league-info/cba-history/>)

² Peter Gammons, "Gammons: After an Irregular Season, What Will the State of Pitching Be in 2021?" *The Athletic*, November 18, 2020.

³ Former A's star Dave Stewart placed a \$115M bid in January; <https://www.cbssports.com/mlb/news/former-as-pitcher-dave-stewart-makes-115-million-bid-to-buy-share-of-oakland-coliseum/>

⁴ Ken Rosenthal, "Rosenthal: Despite Some Financial Incentives, MLB Expansion is on Hold. Here's Why," *The Athletic*, January 11, 2021.

⁵ <https://cao-94612.s3.amazonaws.com/documents/December-19-2018-PC-Meeting-Minutes.pdf>

⁶ <https://oaklandnewsnow.com/oakland-as-ballpark-at-howard-terminal-to-cost-850-million-have-ballpark-village-financing-plan/oakland-news/11/28/2018/22/11/47/10981/>

⁷ <https://www.bizjournals.com/sanfrancisco/news/2020/10/05/oakland-as-buy-stake-in-oakland-coliseum.html>

A comparable financing framework exists in the form of San Francisco's Oracle Park and its adjacent Mission Rock development. As the first professional sports team to build a privately financed ballpark in 30 years⁸ and thus without outstanding bonds to pay back the city, San Francisco strengthened their financial position by diversifying their assets, placing the club in a favorable position in the face of a pandemic with real estate plans to begin after 2021 season.⁹ The developing Baltimore situation sheds light on the advantage of private financing. Leased property has put the Orioles in year-to-year lease limbo until its ownership picture takes definitive shape.¹⁰

The goal of Oakland president Dave Kaval in this process is to build something iconic in the mold of "a Fenway or Wrigley that will last 100 years."^{11, 12} Both durable landmarks were privately financed ballparks that have recently evolved into real estate havens. The 70% publicly financed Texas's Globe Life Park I's 26-year lifespan provides a stark contrast to the argument for durability.

With historically low borrowing rates, now is the time for capital projects as the league can likely plan for a spike in gate receipts 2022-25 due to fan's expected reinvestment in live experience. Regarding debt service, Forbes placed Oakland's current debt/value ratio (2020) at 9%, 14th among MLB clubs, which is to say there could be room to borrow with the rest of the pack currently exceeding the league's usual limit of 10%.¹³

When it comes to a precedent for stadiums that held leverage in the form of the option of rebuilding on existing property, the Dodgers and Diamondbacks come to mind. After acquiring the club in 2012, Dodgers leadership internally considered a new stadium to make room for an NFL team on current land, before 2013 renovations.¹⁴ Arizona has also recently been viewed as a potential candidate for modernizing its home down the road at its spring training site or on its current property.¹⁵

During San Diego's ballpark construction process in the late 1990s, the Padres' status as an existing tenant of Mission Valley (Qualcomm Stadium) promised a shorter timeline and stood as a proof-of-concept as an accessible sports and entertainment complex. This source of leverage played into the Padres' move — motivated by president and CEO Larry Lucchino's sentiment that "this is a downtown game"¹⁶ — to its current East Village neighborhood adjacent to the city's convention center and to the growing Gaslamp Quarter.

The model of mixed-use real estate endures as a way to leverage ballpark improvements outside the realm of baseball economics such that revenues from real-estate development do not

⁸ Since another California team, the Los Angeles Dodgers broke ground at Chavez Ravine in 1962.

⁹ Andrew Baggarly, "Capital Gains: Why the Giants are Uniquely Positioned to Weather this Downturn," *The Athletic*, January 4, 2021.

¹⁰ <https://ballparkdigest.com/2021/02/08/orioles-msa-extend-oriole-park-lease-through-2023/>

¹¹ <https://www.washingtonpost.com/sports/2019/10/16/waters-rise-so-do-concerns-sports-teams-along-coast/>

¹² However, rising sea levels pose an inherent risk of building bayside.

¹³ <https://www.forbes.com/mlb-valuations/list/#tab:overall>

¹⁴ <https://sports.yahoo.com/news/nfl--not-everyone-shares-roger-goodell-s-positive-sentiments-regarding-l-a--stadium-situation-003322581.html>

¹⁵ [https://ballparkdigest.com/2018/05/04/sorting out the diamondbacks ballpark situation/](https://ballparkdigest.com/2018/05/04/sorting-out-the-diamondbacks-ballpark-situation/)

¹⁶ Antonio Davila, George Foster, and David Hoyt, "San Diego Padres: PETCO Park as a Catalyst for Urban Redevelopment," *Stanford Graduate School of Business* no. SPM37, Boston: Harvard Business School Publishing, February 2008: 8.

appear on team ledgers and thus aren't subject to league revenue sharing.¹⁷ The trend is popping up around the league with Atlanta's Truist Park and adjacent mixed-use development, The Battery — where P&L statements shows heavy losses as real estate plans counted on a big 2020 season.¹⁸ Other projects such as Chicago's recent expansion of Wrigleyville (another primary example of a big-market club particularly affected due to lost expected revenue), St. Louis's Ballpark Village, the Angels' September 2020 filing of a plan with Anaheim officials¹⁹; and Boston's recent proposal to continue the process of its Fenway Park development.

Expertise of ownership plays a major role in executing these plans as exhibited by former Padres owner, John Moores and his firm JMI Realty's redevelopment of the East Village—the first time that the public financing of a sports facility had been integrated with, and contractually tied to redevelopment.²⁰

Analysis:

Several main similarities at play between the construction of ballparks in Oakland and San Diego include navigating legal hurdles, solving for environmental efficiency, and producing local economic growth.

The delays in construction provide a primary parallel. In Oakland's case, private financing should help avoid this hurdle. However, the main challenge so far has been the approval process. A cause for worry is found in the CEQA streamlining process's current hold-up by lawsuits before the review and comment process (that accompanies the publishing of the environmental impact report) even gets underway. Resistance to legislature designed to expedite the Howard Terminal approval process has begun to clear up as of late. A lawsuit led by a coalition of Port of Oakland stakeholders headed by the Pacific Merchant Shipping Association was dismissed on February 10²¹ in addition to a February 3 settlement between Schnitzer Steel and the Department of Toxic Substances Control.²² These two cases constituted wins for Oakland but the damage is still felt in the form of a delay to the ambitious timeline with local officials now preoccupied with fighting the pandemic and the A's facing the financial reality of partial Coliseum capacity for 2021. With a third case, that the A's brought against the DTSC for failing to enforce pollution restrictions for the Schnitzer Steel facility, remaining in the balance, Kaval's updated outlook expects a delay in the originally planned 2023 opening date. "[The new schedule] depends on if the city can even get this to a vote this year. . . I think the timelines nonetheless are one of the biggest challenges that we face with the project right now."²³

Per the City of Oakland's planner overseeing the Howard Terminal ballpark project, the draft of the EIR's anticipated publishing within next six weeks (Q1 of 2021).²⁴ With the club's

¹⁷ <https://ballparkdigest.com/2021/01/31/red-sox-partners-pitch-2-1m-sf-for-new-fenway-park-development/>

¹⁸ <https://www.sportico.com/business/real-estate/2020/mixed-use-sports-entertainment-project-covid-19-1234611805/>

¹⁹ <https://www.ocregister.com/2020/09/08/whats-in-the-proposed-angel-stadium-development-agreement-here-are-some-highlights/>

²⁰ Davila, "PETCO Park," 8.

²¹ <https://www.mercurynews.com/2021/02/10/judge-dismisses-lawsuit-against-howard-terminal-project-but-grand-opening-date-has-obviously-slipped/>

²² <https://www.eastbaytimes.com/2021/02/03/schnitzer-steel-to-pay-4-1-million-to-settle-investigation-into-its-oakland-facility/>

²³ <https://ballparkdigest.com/2021/02/11/as-prevail-in-howard-terminal-lawsuit-still-construction-likely-delayed/>

²⁴ <https://newballpark.org/2020/12/04/howard-terminal-eir-maybe-in-early-21/>

lease with the Oakland Coliseum ending in 2024 and no firm destination for the subsequent years, the the margin for error of the Howard Terminal project is now slimmer than ever.

For San Diego, the real challenge was building the ballpark. Midway through the project, construction froze in a 17-month delay due to political corruption allegations over gifts and the project encountered risk of derailment with Moores tempted to relocate.²⁵ A consequence of the continual litigation was that the city could not sell its bonds. With financing of the new facilities delayed, an impasse was overcome by Moores's guarantees of capped city funding, private real estate development and production of new tax revenue to cover city's investment. Eminent domain issues — minimally applicable in Oakland's case — were resolved relatively quickly.

One advantage San Diego held was having an in-house expert in Lucchino, the former president of the Baltimore Orioles and the visionary behind the Orioles' iconic downtown ballpark at Camden Yards. A key decision of Lucchino's leadership that saved the project precious time and investment was to continue orders for structural steel from South. On the other hand, Schnitzer Steel has become one of Kaval's main opponents of the project. One solution for circumventing such legal obstacles lies in Steve Ballmer's buying out of local opposition to a new Los Angeles Clippers arena in March 2020,²⁶ a strategy the A's have thus far proven reluctant to pursue.

A second cause for delay comes in the form of the Howard Terminal project's carbon footprint projections. The lack of public transit options to Howard Terminal presents a challenge for a required 20% improvement over the Coliseum's current carbon footprint.²⁷ Like San Diego's East Village site, however, Jack London Square already has railroads in place, including an Amtrak station. A shorter supply of parking should also incentivize greener forms of public transit. With SB 293, legislation was put in place to create a process for financing infrastructure improvements — roads, walkways, electrical and sewer lines — near the new ballpark site. Acquiring public funds and support for this process will be a priority of Kaval's leadership on this project. The EIR phase — Howard Terminal would make only the second of the six Oakland ballpark proposals since 2006 to reach this stage — will be crucial for Oakland's timeline as they seek to solve the problem of public transit.

To build off the then-recent successful redevelopment of the adjacent Gaslamp District (local social hub) and the nearby convention center (business attraction of out-of-town visitors), both zoning and transit played significant roles in San Diego's efforts. The Padres were able to get their Ballpark District zoned to allow for development to be adapted to the market, a refreshing advantage in fast-growing markets where “a lot of Southern California cities are very prescriptive.”²⁸ Public transit accessibility was made possible by three trolley stations placed 2-3 blocks from stadium so that fans' short walks to the stadium created comfort and visibility in the neighborhood for small businesses and pre-game dining options.²⁹ A distinctive feature of PETCO Park remains the incorporation of the historic Western Metal Supply Company building. Oakland's Howard Terminal plans propose the integration of historic Jack London Square into the commercial identity of the bayside city: shipping.

²⁵ Ibid., 20-22.

²⁶ <https://therealdeal.com/la/2020/03/09/clippers-could-sail-into-inglewood-buoyed-by-ballmers-billions/>

²⁷ <https://newballpark.org/2020/03/17/howard-terminal-neighbors-challenge-ceqa-streamlining-effort/>

²⁸ Davila. “PETCO Park,” 23.

²⁹ Ibid., 24.

Another vital environmental factor lies in the remediation of brownfield sites. San Diego's environmental plan consisted of removing over sixty underground storage tanks and fuel pipes that had contaminated the area. California's Polanco Redevelopment Act helped expedite the process, holding previous property owners accountable for cost of clean-up (over \$20 million in East Village). Mark Rosentraub, an authority on modern stadium projects and their environmental impacts, came out in support for a plan that he called a first of its kind: "The proposed ballpark and redevelopment plan for San Diego may well be the best redevelopment plan that includes the framework for securing a competitive MLB team that a small market city could create."³⁰

A structural overhaul will be in store if the Athletics hope to bridge the gap between Howard Terminal's current industrial lots and the glowing renderings of a futuristic ballpark. The San Francisco Chronicle depicted high concentrations of hazardous material and industrial waste below the asphalt of Howard Terminal, which could call for a costly and lengthy process of soil removal.³¹ Further measurement and resolution of the brownfield site will help inform the pivotal remediation process included in the draft EIR.

In order to avoid the development patterns that drove Los Angeles to a sprawling environment, San Diego's leadership sought to build upon and around a thriving downtown urban community by diversifying the region's economic portfolio.³² PETCO Park achieved both of its goals: growth — by 2004, Ballpark District was the fastest growing area in the City of San Diego (by both population and new housing unit additions) — and economic integration — by the below affordable housing metrics as well as the attraction of educated youth and an observed employment rise in the services industry.³³

While one assessment in 2010 found that approximately 5% of the housing units in the Ballpark District were classified as affordable,³⁴ part of ownership's agreement with San Diego City Council allowed some of the required affordable housing units to be built elsewhere in San Diego.^{35, 36} The A's acquisition of the second half of the Coliseum could allow for a similar arrangement on top of entertainment venues. On the upper end of the spectrum, approximately 24% of the residential units adjacent to Oracle Field are classified as affordable."³⁷ Oakland's goal will be a balance of attracting new residents, while also allowing for convenient attendance for fans across the bay.

³⁰ Qtd. Ibid., 16.

³¹ <https://www.sfchronicle.com/bayarea/article/Howard-Terminal-s-industrial-past-poses-13618156.php>

³² Duncan T. Moore, "No Rust in Rochester," *New York Times*, February 2, 2012.

³³ Michael B. Cantor and Mark S. Rosentraub, "A Ballpark and Neighborhood Change: Economic Integration, a Recession, and the Altered Demography of San Diego's Ballpark District After Eight Years" in *City, Culture and Society*, Volume 3, Issue 3, 2012: 219-226.

³⁴ Mark S. Rosentraub, *Major League Winners: Using Sports and Cultural Centers as Tools for Economic Development*, Boca Raton, FL: CRC Press, 2010.

³⁵ A typical goal for large-scale projects of this type in California is that 10–15 percent of the total number of housing units would be classified as "affordable."

³⁶ Ibid., 223

³⁷ Ibid. The Rincon-South Beach project in San Francisco provides a different perspective on the magnitude a commitment to affordable housing when sport facilities are built.

Recommendation:

Having hopefully moved on from the lawsuit chapter of ballpark planning, Oakland will have to next tackle the environmental factors of public transit and remediation of brownfield sites — two areas where San Diego established a strong precedent. Kaval's leadership and receptiveness in the EIR phase will likely prove critical to the next step of integrating baseball into the surrounding economic environment of the Oakland waterfront community. Urgency is high; but the current approach of private financing joined with the leverage gained from both current property ownership and mixed-use real estate development plans should yield a solution in which profitable baseball returns to the city of Oakland.

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