

Kansas City Royals Make a Pitch to IRS

By SCOTT MCCARTNEY

Staff Reporter of THE WALL STREET JOURNAL
KANSAS CITY, Mo. — The Kansas City Royals are trying to convince the IRS that charity begins at home plate.

To ensure that the team will stay here after he dies, Royals' owner Ewing Kauffman, the Marion Laboratories founder now afflicted with bone cancer, has decided to donate the team, valued at \$100 million or so, to the Greater Kansas City Community Foundation upon his death. But that hinges on the Internal Revenue Service's answer to this question: Can the definition of "charity" be stretched to include the business of baseball?

The IRS is expected to rule this month on the plan, which forces the agency into the cauldron of intercity competition for sports franchises. "The basic issue is whether retaining a baseball franchise in Kansas City is a charitable activity," says Stanley Weiner, a tax lawyer representing Mr. Kauffman.

And even if the IRS umpires call the plan safe, it doesn't guarantee big-league baseball here forever. Under an agreement with other major-league owners, the team will have to be sold within six years, but by that time the plan's bet is that the club will be financially stable and attractive to a local owner.

Trying to quantify what a professional sports franchise contributes to a community is difficult. But no one here disputes the Royals' economic impact.

Mayor Emanuel Cleaver claims that the franchise brings the city world-wide recognition, fosters community spirit and even helps attract corporate relocations. The team has drawn more than two million fans in seven of the past eight years — more than 25% of them from outside a 150-mile radius — and generates an estimated \$200 million a year of spending in the community, Mayor Cleaver says. Without it, he says, the city wouldn't be building a \$130 million convention center and wouldn't have enticed a 500-employee unit of Trans-america Corp. to relocate from Los Angeles last month.

Public Purposes

But whether all that fits the idea of "charity" is another question. The IRS allows gifts to promote literacy, education, religion, science, health and charity, and requires that the contributions be exclusively for public purposes. Mr. Weiner says he can't find any clear precedents but notes the IRS did rule that an all-star football game in Alabama was a charitable activity for the community.

Tax lawyers involved in previous sports-ownership cases suggest the Kauffman plan is akin to a developer donating a park, and citizens paying upkeep. "The



benefit is clear to the community," says James Malone of McDermott, Will & Emery in Chicago.

But skeptics disagree. "Baseball is a business," says Paul Much, a sports financial analyst. "Is keeping a sports team in Kansas City a charitable endeavor? It's hard to come up with that logic."

Mr. Kauffman's unusual proposal calls for him to put up \$50 million to pay huge free-agent contracts, all of which expire within three years, and an additional \$10 million to cover some of the team's current operating losses. "I think everyone owes something to society," Mr. Kauffman says. The community, more the size to financially support a minor-league team than a major-league club, has to kick in another \$40 million. Personal and corporate trusts are already lined up for contributions, but such money must, by law, go to charitable projects.

Remaining Proceeds

The team would be run by five limited partners designated by Mr. Kauffman, including his son, Larry; his financial adviser, Michael Herman; and his friend David Glass, the baseball-crazy chief executive of Wal-Mart Stores Inc. All five would have to pay an undisclosed amount — "significant," Mr. Herman says — to buy Class A voting stock.

The Community Foundation would receive Class B nonvoting stock. And when the Royals are sold, the charities that came up with the \$50 million would get their funds back and the foundation would keep most of the remaining proceeds.

Baseball owners, who have tentatively approved the plan, drew a pledge from Mr. Kauffman that if the Royals aren't sold to a local owner within six years, bidding for the franchise will be opened nationally. But outside bidders would have to overcome several obstacles to relocation, including 23 years remaining on a stadium lease crafted to thwart moving, and the required approval of baseball owners.

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Kansas City, analysts say, major-league baseball teams are finding it increasingly difficult to survive without a deep-pockets owner such as the Royals' Ewing Kauffman.

To make the team affordable to a local buyer, Mr. Kauffman's plan calls for eliminating operating losses by shrinking the payroll to \$30 million from the current \$38 million. That would mean returning to a strategy of developing young talent.

But other small-city clubs have found that strategy leads them into a vicious circle: Losing lowers the take at the turnstile, which puts even more pressure on a team's finances. "We need to be competitive," says Herk Robinson, the Royals' general manager. "If we don't win, people don't come to the ballpark."

In small markets such as Kansas City, analysts say, teams are finding it increasingly difficult to survive without a deep-pockets owner like Mr. Kauffman, who says his philanthropic foundation will be valued at about \$1 billion upon his death. Under a new contract, network television will pay each team \$8 million less a year than under the current agreement; and unlike in the NFL, baseball's local broadcast revenues aren't shared. That has created a wide gap between the haves and have-nots of baseball.

The Kauffman succession plan is "clever," says Michael Megna, an analyst at American Appraisal Association Inc. who has studied the proposal and doubts it will succeed. "It's designed to maximize the opportunity to retain the Kansas City Royals in Kansas City. I just don't think there are that many Kauffmans walking the face of the Earth."

Royals officials say the success of Mr. Kauffman's plan depends on baseball getting its scrambled financial house in order in the next three years. And "Mr. K," as he is known around the clubhouse, believes a local buyer will be found — an opinion he says is based half on speculation and half on discussions with potential buyers.

For now, General Manager Robinson works the phones trying to find another pitcher who might help Kansas City, in Mr. Kauffman's words, "one more World Series winner before I kick the bucket."

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