BY ANDREW ZIMBALIST

A Miami Fish Story

Far from losing $30 million in '97, the Marlins made a hefty profit. So why did their owner destroy the team?

HOW COULD A BASEBALL TEAM in a major media market win the World Series and lose $34 million? The owner of the Florida Marlins, H. Wayne Huizenga, claims that's just what his team did last year. He hoped that his proclamation of penury would shame Broward and Miami-Dade Counties into building him a new, retractable-roof ball park. When it didn't, he went ballistic. Putatively to stop the team's financial bleeding, he conducted the most radical fire sale of players in baseball history, lowering the Marlins' payroll from $53 million in 1997 to $13 million in mid-July 1998 and leaving many baseball fans wondering exactly what Bud Selig was doing in the commissioner's office. At the same time, Huizenga tried to arrange a sale of the Marlins to his longstanding associate and team president, Don Smiley, for $169 million.

As the Marlins stumbled through this season, losing 108 games, Huizenga refused to provide any details about the team's 1997 finances. However, Smiley issued a confidential report on the team to prospective partners in his effort to complete the purchase. Smiley's "Private Placement Memorandum" reports a variety of financial information for 1997 as well as projections for 1998 and beyond. Based on these projections, payroll figures from Major League Baseball and my own calculation of ticket sales (actual attendance multiplied by the average ticket price), the picture for 1997 looks like this:

	REVENUES in millions	COSTS in millions
Ticket sales	$23.9	
Payroll		$53.5
Broadcasting	$23.2	
Team Operations		$18.9
Concessions	$1.8	
Player Development		$5.1
Other	$10.0	
Scouting		$5.1
Latin American Operations		$0.6
Stadium Expenses		$5.0
TOTALS	$58.9	$88.2

These numbers suggest an operating loss of $29.3 million. Quibbling over a few million dollars aside, what's the problem? Did Huizenga's Marlins really lose around $30 million? Of course not. Huizenga is employing an accounting trick as familiar to sports franchise owners as Mark McGwire's home runs are to viewers of ESPN's SportsCenter.

Huizenga owns Pro Player Stadium and the team's cablecaster, Sportschannel Florida. Pro Player was built in 1987 and is amply stocked with all the revenue-generating accouterments of a modern sports facility. Yet there is no mention in the team's reported revenues of income from luxury boxes, even though Pro Player Stadium has

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195 suites that rent for between $55,000 and $150,000 a year. Nor is there mention of income from club seats, although the stadium has 10,209 club seats selling for between $900 and $3,500 a year.

Bob Kramm, president of the stadium corporation, estimates that in 1997 an average of 65 luxury suites and 5,000 club seats per game were sold. Assuming that the average suite rented for $100,000 and the average club seat sold for $2,000, the gross revenue from these two sources would be $16.5 million. Huizenga attributes none of this revenue to the Marlins and all of it to his separate business entity, Pro Player Stadium.

Similarly, Huizenga sells naming rights to the stadium, worth by conservative estimates about $2 million a year. Since the stadium is shared with the N.F.L. Dolphins (also owned by Huizenga), let us attribute half of this value to the Marlins. Parking for approximately 788,000 cars during the baseball season at $5 a car in 1997 brought an estimated $3.9 million. Sales of signs and advertising at the park and in the team program produced an estimated $6 million. (The Cleveland Indians' signage and ad sales at Jacobs Field yielded $8.8 million in 1997 on an average attendance of about 44,000.) Sales of merchandise brought in something like $3 million in net income. (The Indians' figure was $4.5 million.) All told, that's $13.9 million in ball-park revenue attributed to the stadium company, not the Marlins.

Further, the revenue from concessions appears to be substantially understated. Fans spend an average of $10 on concessions, with about 40 percent of that going to the team. With total 1997 attendance of 2.4 million, the Marlins' net concessions income should have been around $9.4 million. Yet the team is credited with only $1.8 million, a discrepancy of $7.6 million. In all, $38 million in revenues are credited to the stadium rather than the Marlins ($16.5 million from luxury and club seating, $7.6 million from concessions, $6 million from signage, $3.9 million from parking, $3 million from merchandise and $1 million from naming rights).

Even though the Marlins receive only a small portion of stadium revenue, they still are charged $5 million to cover "stadium expenses." These expenses presumably are used to pay off Huizenga's debt service on the county industrial bonds that he assumed when he purchased the park. The yearly service on this debt has been estimated at around $5 million, but since the stadium is also the home facility of the Dolphins and the site of special events throughout the year, the Marlins share of this debt should be no more than half.

HUIZENGA PLAYS THE SAME game with Sportschannel. According to Smiley's prospectus, an independent appraiser estimated that the Marlins' contract with the cable station is undervalued by more than $2.1 million a year. Herein lies a powerful reason why Huizenga wanted to sell his team to Don Smiley. Huizenga's deal with Smiley included an extension of the Sportschannel contract through 2024. Under that contract, the Marlins were to receive rights fees well below market value. While that didn't help the Marlins, it increased the station's value from an estimated $85 million to $125 million.

Unfortunately for Huizenga, the deal fell through

when Smiley's fund-raising efforts came up $50 million short. So in August Huizenga began to talk to John Henry, a Boca Raton commodities trader and minority owner of the New York Yankees. They reportedly have reached a deal for $150 million plus other considerations worth, by my calculations, about $50 million. But all is not lost. Apparently, Henry acceded to a 10-year extension of the Sportschannel contract.

Adding the $2.1 million in lost cable revenues to the $38 million in lost stadium revenues brings the total earned by — but not credited to — the Marlins in 1997 to $40.1 million. But that's not the end of it. Smiley's prospectus suggests "other" revenues of $10 million. No details are provided. In 1997 the Marlins beat the Indians in the seventh game of the World Series. The Indians reported net postseason ticket revenues of $6.8 million. Presumably this is part of the "other" $10 million for the Marlins.

Then there is roughly $2 million that comes from Major League Baseball Properties as licensing and sponsorship income. This leaves only $1.2 million for all "other" sources of revenue: roughly 15 preseason games at the Marlins' publicly financed spring training ball park; special functions; net income from the team store in Fort Lauderdale (since closed) and so on. Finally, in the "Private Placement Memorandum" Smiley reports that he intends to lower general and administrative expenses by $3 million a year, suggesting there is that much padding in the current budget.

In short, if the Marlins financial statement is adjusted for related-party transactions and bloated costs, what appears to be a $29.3 million operating loss in 1997 becomes instead an operating, profit of $13.8 million (adding $40.1 million in additional revenues and $3 million of bloated costs). Why else would Don Smiley, who as team president knows its financial predicament as well as anyone, have wanted to buy the team?

WHY DOES HUIZENGA want to sell a profitable team? Perhaps the same reason he sold Blockbuster to Viacom: he can get a good price for it with a nice capital gain and he can control the terms of the deal to benefit his other holdings, including Sportschannel and the Pro Player Stadium corporation. Further, Huizenga has owned the Marlins since 1993 and by now has used up his player amortization allowance (a tax benefit that allows an owner to set aside up to 50 percent of franchise value and then depreciate this sum, usually over five years). Thus, the substantial tax-shelter value of the club is exhausted.

Meanwhile, the team finished the 1998 season with a payroll of $13 million. Seven million of this was from the insured contract of pitcher Alex Fernandez, who was on the disabled list all season. As such, the insurance company was responsible for at least 70 percent of the $7 million, so the actual payroll disbursements for the 1998 Marlins were probably below $10 million.

With average attendance at Pro Player down from 29,555 in 1997 to 22,157 in 1998, ticket revenue fell by around $6 million. Auxiliary stadium income also took a proportional hit, but the player payroll was down by more than $40 million — more than offsetting lower stadium income. Thus, Huizenga's Marlins were even more profitable losing in 1998 than they were winning in 1997. ■