Los Angeles Dodgers baseball team files for bankruptcy

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Los Angeles Dodgers owner Frank McCourt filed for bankruptcy protection June 27 in a last-ditch effort to avoid having the team taken over and sold by Major League Baseball. The team has had difficulty meeting payroll, despite huge revenues in the second-largest US market, because its resources have been systematically plundered to support the owner's lavish lifestyle.

The bankruptcy filing was the culmination of a two-year divorce battle between McCourt and his ex-wife Jamie, who contends she owns half the team. During the divorce proceedings it was revealed how the McCourts, who bought the Dodgers in 2004, had been looting one of baseball's most celebrated teams to the tune of at least $200 million.

McCourt had a long association with real estate and construction in the Boston area but had been repeatedly rejected by Major League Baseball when he had attempted to buy at various times the Boston Red Sox, Los Angeles Angels, and Tampa Bay Rays.

He eventually acquired the Dodgers in a highly leveraged deal, much of it financed by loans funneled through the previous owner, Rupert Murdoch's News Corporation, which effectively paid McCourt to take the baseball team off its hands. One published estimate is that McCourt acquired the team, valued at $727 million by *Forbes* magazine last year, without investing a penny of his own money.

The unraveling of the Dodgers began soon after McCourt and his wife, Jamie, arrived from Boston. The particulars, however, only have become public when the McCourts embarked on a contentious divorce, which was filed in October 2009.

Through these divorce proceedings it was revealed that the McCourts from 2004-2009 siphoned off $108 million from the Dodgers to finance what one lawyer described as an "extraordinary lavish lifestyle." This included the purchase of four homes in Los Angeles, worth a total of $89 million, annual salaries of $5 million and $2 million for Frank and Jamie, up to $600,000 apiece for their two sons, one a full-time student, the other a full-time employee at Goldman Sachs, as well as hundreds of thousands spent on private jets, vacations, jewelry, and clothing.

During this same period of time, the McCourts paid no federal or state income taxes, because their claimed business "losses" and "expenses" had reduced their taxable income to zero.

The McCourts' looting of the Dodgers was accomplished in large part by their dividing the team's assets into over twenty interlocking holding companies and other business entities, a practice that has since been banned by the league. McCourt would obtain tens of millions in loans using these various entities as collateral. He would also "create" income by requiring one entity to pay another. For example, McCourt created a holding company for Dodger Stadium, then had the team pay an exorbitant $14 million in rent to this company for a stadium it had long owned.

During the divorce proceedings, then Dodgers' Executive Vice President Jeff Ingram testified that the Dodgers built their team budgets around the personal cash demands made by the McCourts. From a financial standpoint, the team's top priority was to raise the funds required by the McCourt family.

On April 20, 2011, with the Dodgers' debt being well over $500 million, and neither McCourt having the financial ability to continue to operate the club, Baseball Commissioner Bud Selig, invoking "in the best interests of baseball" clause, appointed a trustee to oversee the day-to-day operations of the Dodgers. This effectively removed the McCourts from control.

Subsequent efforts by Frank McCourt to obtain further loans were rejected by Selig, who intended to have the league meet the Dodgers' financial obligations until another owner could be found to buy the team. The last straw came when Selig rejected a proposed new television contract with Fox Broadcasting, which may well have been an effort by the Murdoch empire to prevent the collapse of the Dodgers from bringing to light its own role in the McCourt saga. Selig justified the action by noting that the deal had been structured to provide more cash for the McCourts regardless of its impact on the viability of the franchise.

Without further financing, McCourt was unable to make a $30 million commitment. Rather than have Major League Baseball make this payment, McCourt filed for bankruptcy in a last attempt to maintain ownership of all or part of the Dodgers. It is expected that it could take several months of litigating the bankruptcy and divorce issues before the ownership of the Dodgers will be ultimately determined.

The Dodgers have been one of baseball's most storied franchises. The team had a nationwide following, particularly among minority workers, as the first to break the "color barrier," with baseball's first black player, future Hall of Famer Jackie Robinson. Soon after Robinson's successful debut with the Dodgers in 1947, he was joined by Don Newcombe and Roy Campanella, two other top-performing black players, and the Dodgers became one of baseball's best teams.

Under its longtime owner Walter O'Malley, the team moved in 1958 from Brooklyn, New York to Los Angeles, becoming the first major league team to play on the West Coast. By the 1980s, it had developed a large fan base among Mexican-Americans as well, both because of its location in southern California, and the role of Fernando Valenzuela, the star pitcher who helped pave the way for influx of Latin American players who today hold such a significant place in the sport.

The O'Malleys—his son Peter succeeded Walter as Dodger chief executive—were ruthless and hard-nosed businessmen, as shown in their handling of the move to the West Coast, where they prevailed on the New York Giants to move to the smaller market of San Francisco, ensuring a permanent financial dominance for their franchise over its longtime rival.

Nonetheless, both were considered "baseball men," and were part of a generation of owners who made their profits and income from the franchise, which was neither an ornament nor a sideline, but their principal business. The Dodgers were for a long period considered one of the model franchises.

By 1990s, however, this family-run operation could no longer compete with the corporations that were taking over major league sports. The new economics of the game had changed and without the support of a separate corporation, the days of family baseball ownership were largely over. In response to this emerging economic reality, Peter O'Malley in 1998 sold the Dodgers to Rupert Murdoch and News Corporation (Fox) for a then-record $311 million.

Murdoch's interest, however, was not in baseball, but in developing his media empire. He hoped to build a cable channel based on the Dodgers, as had been done by Ted Turner and the Atlanta Braves, whose Atlanta cable station turned its domination of the southern regional market into the base for a television empire (TBS, TNT and CNN) that he eventually sold to Time Warner.

Within months of Murdoch's takeover, Mike Piazza, the Dodgers' best and most popular player was traded, and the manager and general manager were fired. In the six years that Murdoch owned the Dodgers, the team had three managers and two general managers, the same number the O'Malleys had during their 50 years of ownership. Prices for tickets and concessions rose dramatically, and attendance at Dodger Stadium dropped.

By 2004 Murdoch's baseball "interest" waned—the cable TV project never materialized—and he turned his attention to taking over DirecTV. Needing cash for this venture, Murdoch sold the Dodgers in 2004 to Frank McCourt for approximately $430 million.

The decline and fall of the Dodgers over the past two decades thus mirrors the course of many American business enterprises, where family proprietors were displaced by corporate CEOs whose main concern was not the long-run viability of the business, but short-term profits and, as in the case of the McCourts, how much they could grab of the corporate assets during the time they were in charge.