

Office of the Commissioner
MAJOR LEAGUE BASEBALL



Daniel R. Halem
Deputy Commissioner, Baseball Administration

January 29, 2020

Via E-Mail

Pat O'Conner
Minor League Baseball
9550 16th Street
St. Petersburg, FL 33716

Re: PBA Negotiations

Dear Pat:

We received a letter addressed to Commissioner Manfred from Minor League Baseball ("MiLB") on January 23, 2020. Since the letter was not signed, we will direct our response to you as the President of MiLB. Although we have fully explained our views on all issues both formally and informally to members of your negotiating committee, there continues to be a disconnect between MiLB's public messaging, government messaging and written communications on the one hand, and the views expressed by MiLB at the negotiating table on the other. Without repeating for you MLB's position on every issue, I will use this letter as an opportunity to respond to specific statements in the January 23rd letter that we believe are inaccurate, misleading or inconsistent with the positions of your negotiating committee (and those statements from your letter are set forth in bold below).

Before I turn to the specifics, I want to state, once again, that MiLB and you personally are doing significant damage to your relationship with the 30 Clubs by attacking MLB publicly and in the political realm. The 30 Clubs are united in our negotiating position and misinformation tactics you have employed have only made the 30 Clubs more resolute.

Your letter says:

As a threshold matter, we believe that it is our obligation to represent in these negotiations not only the best interests of Minor League owners, but also the best interests of our 160 community partners.

Based on dozens of meetings with government officials, and discussions with members of your negotiating committee, there is, in many circumstances, a very clear divergence between the interests of local communities and the financial interests of Minor League owners, some of who view the "license" to receive an affiliation with an

MLB Club as a commodity with a fixed value that is bought and sold for a profit similar to a taxi medallion. Local communities, on the other hand, want to retain their local teams in organized baseball leagues that provide fans a comparable experience to the existing teams. MLB has received a favorable reaction to our concept for MLB-sanctioned prospect and showcase leagues. (Many similar leagues draw thousands of fans a night – more than many affiliated teams – even without the involvement of MLB). However, Minor League owners have expressed to us that even if these alternative leagues are economically viable, and provide fans a comparable or better baseball experience than the current model, they are a non-starter because they believe the structure will negatively impact franchise values, which of course is not a concern of local communities.

MLB has committed both privately and publicly that it will operate leagues under an MLB affiliation in all places that currently have a team irrespective of whether the local team receives an “affiliation” from an MLB Club under the current model. MiLB cannot make such a commitment because Minor League owners routinely leave communities because the team is not economically viable, or the owner receives a better offer elsewhere. And when they do leave, neither MiLB nor the team owner typically offers anything as a replacement to the community. Such was the case in Pawtucket (2020), New Orleans (2019), Mobile (2019), and Helena (2018) in the last two years alone. Given the track record of MiLB abandoning communities when it suits the owners’ economic interest, it is more than a bit ironic that you hold yourself out as the defender of local communities.

The recent information we learned about the Batavia affiliate not only proves this point, but, frankly, calls into questions whether MiLB is truly pursuing a strategy in the “best interests of our 160 community partners.” Batavia is a failing affiliate, with both facility and economic issues, that was put into receivership by the NY Penn League (which essentially owns and operates the team). New York State officials requested that MLB officials meet with Batavia community officials to discuss how to preserve baseball in Batavia. After we set up the meeting, we learned for the first time from multiple sources (but not MiLB) that the NY Penn League sold Batavia – presumably for millions of dollars – to an owner who intends to move the team to another city. While this transaction certainly benefits the NY Penn League owners who may split millions in proceeds by selling an asset with no intrinsic value, we fail to see how it is in the “best interests” of the citizens of Batavia or MLB owners, whose minor league players endure unreasonable travel burdens because MiLB permits its affiliates to hopscotch around the country for purely economic reasons.

Your letter says:

MiLB believes that all full season Minor League games must be played in adequate facilities that protect the health and well-being of players and that players not be subjected to unreasonable travel during the course of a season. We have advanced several ideas to address these objectives, to which your negotiating team has failed to respond.

MiLB has made one formal proposal to MLB, and that was on March 1, 2019. That proposal essentially rolled-over the existing agreement for another decade, except that it *reduced* MiLB's share of the expenses required to operate the Minor Leagues, including player costs. MiLB did not make any proposal to address any of the concerns expressed by MLB, including the quality of facilities, the travel burden imposed on players, and the need to improve Minor League player compensation and working conditions. Since that time, despite repeated requests from MLB, MiLB has been unwilling or unable to make a proposal. While its negotiators floated many iterations of concepts during informal discussions, we were informed that there is no consensus among MiLB owners on how to address MLB's concerns, that the individual leagues and not the National Association are the sole entities with jurisdiction to address numerous issues (including the composition of the leagues), and that many MiLB owners believe that they can strike a better agreement by continuing the public and congressional pressure campaign rather than by making concessions at the bargaining table.

If MiLB has a proposal that it would like MLB owners to consider, please send that proposal to us in writing so we are in a position to make a responsive proposal.

Your letter says:

MiLB's negotiating position has been and continues to be that MLB and MiLB should work together to identify teams [AAA, AA, and A] currently playing in stadiums deemed inadequate and the specific improvements required. These teams, and their communities, should be given an agreed upon amount of time to demonstrate that they have access to sufficient financial resources to make the required improvements and to complete the improvements. In the event that a team fails to meet this requirement, the Player Development Contract ("PDC") for that team would be transferred to MiLB, which would have the responsibility to reassign the PDC to an ownership group demonstrating an ability to operate in a ballpark that meets agreed-upon facility requirements in a location that does not unacceptably increase player travel.

We already have identified for MiLB the full season affiliates that MLB Clubs do not believe are suitable for player development without substantial renovations to the facilities in the short term, and in some cases significant improvements to the manner in which the affiliate treats players (e.g., quality of meals, transportation, hotel accommodations). With few exceptions, we do not believe that there is any disagreement between MLB and MiLB on the facilities that are in dire need of renovations (most of which have been on your radar for many years). As we have explained, the Clubs that are compelled to affiliate with these teams are placed at a competitive disadvantage compared to Clubs that receive affiliates with the better facilities. These Clubs also are uncomfortable subjecting their players to potentially unsafe conditions and subpar working conditions for professional athletes.

As we also have communicated, we believe that it is fair and appropriate to provide the owners of these affiliates (and the communities) an opportunity to improve their facilities in order to maintain their affiliations. In fact, we have been directly involved in conversations with elected officials, including officials in New York,

Pennsylvania and Tennessee, about the prospect of public financing to improve the facilities.

However, we are perplexed by MiLB's position that if an owner is unable to meet the requirements to maintain a direct affiliation with an MLB Club, MiLB retains the right to sell the affiliate to a new owner, presumably provide the owner who failed to meet standards with a healthy return on his or her investment, and split any remaining proceeds with other owners of the league. We recognize that these types of transactions are part of MiLB's business model (the Batavia transaction being the latest example), and inure to the benefit of MiLB owners who are essentially guaranteed a return on their investment whether they run a good affiliate or a bad one, or are able to upgrade their facilities or not, but we fail to see how this construct is in the interest of MLB Clubs, Minor League players or communities (which are left with no form of organized baseball).

Consistent with traditional notions of free enterprise, and free competition, if an existing affiliate cannot provide facilities suitable for the development of professional baseball players, an MLB Club should be able to decide where to send its players to provide them with both the best chance of reaching the Major Leagues and the best player experience, whether it be another affiliated team, an existing short-season team that would be promoted to full season, an independent league team, a community that has an appropriate stadium, or a MLB Club-operated team. We are not sure why MiLB believes it is appropriate for MiLB to auction to the highest bidder the right to receive players that it doesn't employ or compensate when an existing affiliate can no longer support professional baseball. Indeed, MiLB's position in this regard is inherently anti-competitive. In such circumstances, rather than focusing on cashing out the MiLB owner, and distributing proceeds to other MiLB owners, the parties should focus on providing the affected communities a form of organized baseball that is appropriate for the stadium and market.

Your letter says:

MiLB understands that MLB wants to reduce the total number of players each MLB team is required to have under contract but believes that the elimination of short season Minor League Baseball is not necessary for MLB to achieve this objective. . . MiLB does not accept as reasonable MLB's position that it cannot agree to work with MiLB on creative solutions to preserve short season affiliated baseball because these leagues must be eliminated in whole to meet MLB's "competitive balance" and "cost savings" objectives. It is MiLB's view that these are insignificant factors, especially when compared with the negative social, cultural, and economic impacts that elimination of short season baseball will have in many smaller communities throughout the United States.

We have provided MiLB our Clubs' reasoning for the elimination of short-season baseball numerous times, and "creative solutions" to retain baseball in every community, but MiLB's public messaging has consistently been that MLB desires to restructure short-season baseball for "cost savings objectives." While we recognize that such messaging

may play well publicly, it is absolutely not true. MLB has three objectives that affect short-season baseball, none of which is premised on cost savings. First, as we have previously explained, our Clubs believe that the First Year Player Draft has too many rounds (40 compared with 7 for the NFL and NHL), with hundreds of players drafted each year that have an extremely low chance of making the Major Leagues (only 18% of *all* drafted players reach the Major Leagues for at least one day; 8% accumulate 3 years of service; and those figures fall to 5% and 1%, respectively, for players drafted after the 25th round). Players who choose not to attend college because they are selected in the draft, or leave college after their junior year, often do not complete their education after being released. Second, MLB desires to move the draft later into the summer, preferably after the completion of the College World Series, so MLB Clubs do not draft players in the middle of the NCAA playoffs. Third, under current player development philosophy, many Clubs prefer to rest recently drafted players as much as possible since they just completed a full season of high school or college baseball and utilize their Spring Training complex to orient them into professional baseball.

Whether MiLB agrees with these objectives or not, these are decisions that MLB, in consultation with the Players Association, has the right to make to develop elite baseball players into Major League players. Our player development objectives impact short-season baseball in two distinct ways. First, with the draft moved to early July, MLB Clubs would not have players to send to short-season teams until late July or early August, making the operation of a short-season league unfeasible. Second, with the number of rounds of the draft reduced, MLB Clubs will not sign a sufficient number of players to staff short-season teams.

We have provided your negotiation committee with some viable alternatives for the existing short-season affiliates. The concept we are most excited about is staging an MLB prospect league that would operate from June 1 through September 1 in which high school graduates, and draft-eligible college players, would compete in a league to showcase their skills prior the MLB draft. The existing short-season teams would operate their businesses with no virtually no change in their operations and can be assigned, whenever possible, players from their state or city to increase local interest. From a player standpoint, high school and college players could assess where they stand against top competition *before* making the decision to skip college or leave college to sign a professional contract and forego their NCAA eligibility. Following the draft, the drafted players that choose to leave the league would be replaced by undrafted players. The primary objection to this plan that we heard from MiLB owners is their belief that a team comprised of players who have not yet signed professional contracts would lower the value of their affiliates – notwithstanding the fact that the level of competition would be virtually unchanged and many players in the league will be future Major League players.

The model described above better serves the interests of our players, allows the existing owners of short-season affiliates to retain their teams without significantly altering the operating economics of their businesses, and allows all communities with a short-season team to retain organized baseball under the auspices of MLB, MiLB and

USA Baseball, the national governing body for baseball in the United States. Even if the Professional Baseball Agreement (“PBA”) remained unchanged, many communities with existing short-season affiliates will lose their teams in future years because the Minor League owner will relocate the team for economic reasons. In the Pioneer League, Helena lost its team to Colorado Springs in 2018, Casper lost its team to Grand Junction in 2011, and the owner of Orem is currently attempting to move the team to Colorado. In the NY Penn League, 11 of the 14 existing teams relocated from other cities, most of which were relocated from upstate New York communities (and Batavia will be the 12th if it is relocated). We believe the model we are proposing will provide more stability to these leagues, and eliminate or greatly reduce the regular relocation of teams from community to community.

Your letter says:

MiLB acknowledges that MLB owns 10 Appalachian League (“AL”) teams and that MLB regrettably has the authority to unilaterally decide the future of the AL.

It comes off as a little presumptuous that MiLB is expressing disapproval over MLB’s authority to make decisions regarding a league that its Clubs operate for players that they employ. (Which raises the issue of why the Appalachian League, which MLB Clubs wholly own, and the Florida State League, which MLB Clubs own 8 of the 12 teams, are even part of the National Association). But with respect to the Appalachian League, we have developed a plan to retain baseball in all of the communities under the umbrella of MLB, and those communities will not be asked to invest additional funds to upgrade stadiums in order to retain baseball.

While referencing “unilateral” decisions that impact baseball, MiLB also must acknowledge the disruptive nature of moving teams. MiLB teams have “unilaterally” decided to leave communities for new ones 77 times since 1990. These moves are not just disruptive to the cities and towns where baseball is played, but they disrupt player development and league logistics – sometimes putting teams hours apart from others in their leagues, impacting player rest and recovery as well as creating travel demands that are increasingly burdensome.

Your letter says:

It is simply not true that MLB “heavily subsidizes” MiLB. MLB teams do not pay MiLB owners and their partner communities that supply the facilities and league infrastructure that enable players under contract to MLB teams the opportunity to compete at a high level and establish whether they have the capability to play in the Major Leagues.

This may be the most transparently false statement in a letter full of such statements. MiLB is an entertainment business. The largest single cost in virtually every entertainment business is the cost of talent. Major League Baseball provides MiLB with free talent. The provision of this free talent is clearly a subsidy.

Indeed, if “it is simply not true that MLB ‘heavily subsidizes’ MiLB,” why is MiLB taking the position that it will contract teams unless MLB continues to provide them with a full complement of players and coaches, and to subsidize equipment such as baseballs? And if the “amounts funded by MiLB to assist in the development of MLB’s players far exceed anything paid by MLB to its players, managers and coaches at the Minor League level” – as you claim in your letter – it should not be an issue reallocating some of those funds to actually pay players in those cases in which a team does not receive an affiliation.

Just so our position is crystal clear, MiLB is free to operate as many or as few teams in its leagues as it desires. If an existing team does not receive an affiliation, MLB has no objection to that team continuing to play in its existing league, but it would, like the dozens of independent league teams that thrive in this country, be responsible for hiring and paying its own players. Based on the figures cited in your letter, MiLB could provide 40 teams a full complement of players for \$12 million a year from its total revenue base of nearly \$600 million. While we recognize that the owners of the most profitable Minor League teams (primarily in AAA and AA) have no desire to share their revenue to support the unprofitable ones, our Major League owners have agreed to that very concept in order to offer Major League Baseball in places that could not otherwise support a Major League Club.

Finally, while MiLB says that “talk about subsidies isn’t helpful or beneficial to the industry,” this entire dispute is about MiLB’s desire for a larger subsidy to its business than MLB is prepared to offer. MiLB believes that MLB should subsidize 160 affiliates rather than 120 even if MLB only requires 120 affiliates to operate *its business*. And even if we characterized the economic relationship differently, the reality is that MiLB owners have been dependent on a *contractual arrangement* with MLB to offer its entertainment product – the actual baseball game, and the willingness of local communities to allocate public funds for stadiums to stage those games. The terms of PBA are so favorable to MiLB owners, and the stadium subsidies provided by the communities are so valuable, that MiLB franchises are routinely sold for between \$6 and \$25 million. If MLB no longer has the need to supply players to as many affiliates, or a community does not desire to invest additional public funds in a stadium suitable for the development of MLB players, MiLB simply does not have the right to cry foul. Demanding that MLB Clubs hire more players than they need or requiring MLB Clubs to send players to facilities not appropriate for professional athletes, is not a reasonable position in our view.

In closing, I would make two points. First it is clear that this negotiation is not about MiLB trying to preserve baseball in small towns across America. And, it is also not, as you have claimed, about Major League Baseball trying to cut costs. Our proposal contemplates the continuation of baseball in every community that has it currently and would, at best, be cost neutral for MLB. This negotiation is about MLB’s desire to protect players from substandard working that hinder their development and MiLB’s desire to preserve or enhance the franchise values of its owners at the expense of those players.

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Second, I personally do not believe that exchanging letters of this type is productive or increases the likelihood that the parties will reach a mutually acceptable agreement. When I was informed that MiLB was planning to send a letter to the Commissioner, and then make that letter public, I told members of your negotiating committee that sending letters was not going to help us resolve our issues, and making such letters public would only further increase the acrimony on both sides. Months ago I also proposed to your negotiating committee that both sides agree to cease the public commentary in order to create a better environment for the negotiations. I was told that too many MiLB owners would not agree to that approach.

We have a meeting scheduled next month with your negotiating committee to continue the discussions and hopefully establish a more constructive atmosphere to resolve these very complicated issues in manner that not only preserves baseball for the *long-term* in the places that currently have teams, but also provides future MLB players with the facilities and working conditions that our Clubs believe they deserve.

Very truly yours,



Daniel Halem