

**NASSAU COUNTY  
OFFICE OF THE COMPTROLLER**



**Nassau Veterans Memorial Coliseum:  
Review of Proposed Redevelopment**

**George Maragos  
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**July 21, 2011**

**NASSAU COUNTY  
OFFICE OF THE COMPTROLLER**

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## **1.0 EXECUTIVE SUMMARY**

The Nassau County Veterans Memorial Coliseum (“Coliseum”) is a 39 year old hockey arena and entertainment complex owned by Nassau County (“County”). It requires extensive renovation in order to remain competitive and continue as a sports complex. The Coliseum is the home venue for the New York Islanders (“Islanders”), a professional ice hockey team playing in the National Hockey League (“NHL”). The Islanders have indicated that they would move to another location outside the County if a new arena is not built by the time the current lease expires in July 2015.

The Coliseum is currently operated by Spectacor Management Group (“SMG”) under a lease agreement with the County that generates on average approximately \$2.6 million in annual revenue to the County through Rent, a percentage of Concessions sold at events, Parking, as well as a \$1.50 Entertainment Surcharge Tax (“Ticket Tax”) on all tickets sold. In 2010, the Ticket Tax revenue was approximately \$1.3 million or about 53% of the revenue received from the Coliseum.

At a press conference in May 2011, County Executive Edward Mangano announced the “Economic Development and Job Creation Plan” that outlined a revitalized plan to build a new Sports Arena (“Arena”) and a Minor League Ballpark (“Ballpark”) in the area where the Coliseum is currently located. The redevelopment of the Coliseum would center on a new Arena, which will remain the home of the Islanders. This Arena will hold 17,500 seats for hockey games and 20,000 for concerts.

To fund the redevelopment plan, the County Executive has asked the County taxpayers and the Legislature to authorize the borrowing of \$400 million over a 30 year period. This total is composed of a \$375 million maximum allotted for the Arena and \$25 million for the Ballpark. The Office of Legislative Budget Review (“OLBR”) estimates that the debt service cost on the \$400 million bond (non-tax exempt) would require approximately \$29.3 million annually. The debt service cost on the \$350 million for the new Coliseum would be \$25.6 million.

The Comptroller’s Office conducted a review to determine the economic feasibility of the Administration’s proposal. In proceeding with the analysis, we have reviewed the following:

1. The Mangano Administration’s press release, dated June 22, 2011, announcing the Hub Redevelopment Plan;
2. The revenue that has been received by the County from Islanders games and other entertainment events at the Coliseum under the current Lease Agreement (“Current Agreement”);
3. The financial and attendance projections by the Islanders (“Owner”);
4. The assessment of the Owner’s projections performed by Conventions, Sports & Leisure International (“CSL”);

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5. The “Uniondale Hub Redevelopment Project Economic Impact Analysis,” dated June 2011, performed by Camoin Associates (“Camoin”) under contract with the Nassau County Industrial Development Agency (“IDA”);
6. The proposed Lease Agreement (“Proposed Agreement”) between the County, as “Landlord,” and ARENACO SPE LLC (“Arenaco”), as “Tenant,” to operate the Arena; and
7. The OLBR Borrowing Cost Analysis, dated May 19, 2011, and its Camoin Study Analysis dated July 15, 2011.

The assumptions and the resulting projections in these studies vary significantly. The studies are informative but they are not substitutes for contractual terms required in an agreement to ensure that the County taxpayer is protected. Each of these studies made assumptions that cannot be corroborated with the Proposed Agreement terms on revenue sharing, revenue guarantees and cost overruns. These terms are still fluid. Consequently, it would be inappropriate for the Comptroller to further speculate as to what the finalized contractual terms will be and synthesize an economic analysis based on these hypotheses.

In order for the taxpayer to be adequately protected and to ensure that the economic projections are realized, the following terms as well as the Islanders’ commitment to remain in the County should be included in the Proposed Agreement. We understand that these protections are already under negotiation.

- 1) The Tenant should guarantee its commitments on the minimum annual payment and payment of cost overruns.
- 2) The Proposed Agreement and Islanders’ agreements should be concurrently reviewed and executed in order to judge the overall soundness of the Proposed Agreement.
- 3) The Tenant’s commitment to pay 11.5% of revenues from non-Islanders events needs to be clarified. A part of this revenue as well as a part of auxiliary revenues should be guaranteed.
- 4) Lease Assignments or Subleases should not be allowed without the County’s approval in its sole discretion in order to protect revenue sharing and minimum payments.
- 5) The County should retain the development rights on the 77 acres surrounding the Coliseum.

We will analyze and independently confirm the benefits and risks associated with the redevelopment plan when we receive the final agreement.

## **2.0 COLISEUM HISTORY**

### **2.1 Background**

The Mitchel Field site, which includes the Coliseum and the proposed Ballpark location, has a long history of military and municipal service to the nation, as well as the community which surrounds it. Prior to 1919, the geographical area known as the Hempstead Plains was used as training grounds for the United States Army. From the Revolutionary War through the Civil War, training grounds and barracks had existed on the site. The northern edge of the site (currently occupied by the New York State Supreme Court complex in Mineola) was used as a training area for the United States Army during the Spanish American War in 1898.<sup>1</sup>

During World War II, Mitchel Field played an important role in flight training, equipment and munitions transport, and the aerial defense of New York City and America's eastern seaboard.<sup>2</sup> This aviation industry employed more than 100,000 civilians and provided an economic engine for the County during the war.<sup>3</sup>

After World War II, Mitchel Field was designated as the center of Air Defense Command for the entire country. The role of Mitchel Field gradually diminished as alternative bases were opened in less urbanized areas. In 1961, Mitchel Field Air Force Base was closed by the local and federal government and was turned over to the County. In 1962, 135 acres of the site were set aside for the use of Nassau Community College.<sup>4</sup> Another section is occupied by the campus of Hofstra University.

On January 6, 1969, the Board of Supervisors voted to authorize the County Executive (then Eugene H. Nickerson) to enter into agreements and leases with the Mitchel Field Development Corporation pursuant to Ordinance No. 10 – 1969, 11 – 1969, and 12 – 1969 to develop areas of Mitchel Field. The Coliseum's construction began in 1969 and was completed in 1971.

The Coliseum derived its name from Nassau County Charter §2206-a. The legislative intent was to identify the Coliseum as "Veterans Memorial" in order to recognize the contributions of the members of the United Veterans Organization.<sup>5</sup> This designation was recognized in a subsequent lease agreement that is still in effect today.<sup>6</sup>

Between 1972 and 1979, the Coliseum was operated by the Nassau County Department of General Services. The concessions were subcontracted to Henry M. Stevens, Inc. In 1979, the

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<sup>1</sup> hempsteadplains.com. "Historic Hempstead Plains – Nassau County Long Island – "In defense" of Mitchel Field." §1(4-5). October 26, 1955. Accessed June 2011. <http://www.hempsteadplains.com/mfhst00.htm>

<sup>2</sup> hempsteadplains.com. "Historic Hempstead Plains – Nassau County Long Island – "In defense" of Mitchel Field." §1(4-5). October 26, 1955. Accessed June 2011. <http://www.hempsteadplains.com/mfhst00.htm>

<sup>3</sup> Joshua Stoff, "The Aviation Heritage of Long Island," The Cradle of Aviation Museum, 2001. Accessed June 2011. <http://www.cradleofaviation.org/history/index.html>

<sup>4</sup> NCC.edu. "Mission & History." Accessed June 2011. [http://www.ncc.edu/aboutncc/mission\\_and\\_history.shtml](http://www.ncc.edu/aboutncc/mission_and_history.shtml)

<sup>5</sup> Nassau County Charter §2206-a.

<sup>6</sup> Lease Agreement of 1979, Art. XVIII, pg. 32.

Board of Supervisors and the County Executive felt that a private corporation could more efficiently operate the facility. Consequently, the County entered into a contract with Hyatt Management Corporation of New York, Inc. (“HMC”) in 1979 to operate the Coliseum.<sup>7</sup>

## **2.2 Amendments to Contract**

The Contract with HMC was amended several times during the period from 1980 and 1991 as follows:

### **2.2.1 Accommodation to Build the Marriott Hotel - February 8, 1980**

This amendment specifically changed language in the Current Agreement concerning the location of the proposed hotel that would be constructed in the Coliseum parking lot. The County would now be required to replace all spaces lost with the construction of the hotel. Furthermore, this amendment allowed HMC to make emergency building repairs and to charge them to the County.<sup>8</sup>

### **2.2.2 Contract with HMC Extended to 2015 - March 6, 1986**

This amendment acknowledged that HMC changed its name to Facilities Management of New York, Inc. (“FMNY”) and extended the Current Agreement by four additional five-year terms starting in 1990 and expiring year-end 2009, with an optional extension from January 1, 2010 to July 31, 2015.<sup>9</sup>

### **2.2.3 Contract Assignment to SMG - January 24, 1991**

In 1991, the County and FMNY assigned the Current Agreement to Pennsylvania joint venture SMG and the Hyatt Corporation.<sup>10</sup>

### **2.2.4 Parking Revenue Sharing Renegotiated – June 11, 1991**

This amendment revised Article VI of the Current Agreement, “Parking Revenues.” Effective July 1, 1991, the parking revenue rate for the County was replaced with a requirement for SMG to remit 7.53% of all gross parking fee revenues to the County without a minimum “threshold” exclusion. Additionally, for every \$0.25 increase in the parking fee, the County’s revenue sharing percentage (7.53%) increases incrementally by 9%. The County’s share of parking revenue is capped at 12.75% revenue sharing of the total parking fees collected by SMG.<sup>11</sup>

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<sup>7</sup> According to an interview with Nassau County Officials - Institutional Knowledge.

<sup>8</sup> Amendment to Indenture of Lease made 8<sup>th</sup> day of February, 1980 between the County and HMC.

<sup>9</sup> Amendment to Indenture of Lease made 6<sup>th</sup> day of March, 1986.

<sup>10</sup> Agreement to Assignment of Nassau Coliseum, dated 24<sup>th</sup> day of January, 1991 between the County, FMNY to SMG, and the Hyatt Corporation.

<sup>11</sup> Amendment to Indenture of Lease made 11<sup>th</sup> day of June, 1991 between the County and SMG.

### **3.0 CURRENT COLISEUM AGREEMENT WITH SMG**

#### **3.1 Major Operating Terms**

##### **3.1.1 Revenue Sharing<sup>12</sup>**

The Current Agreement with SMG outlines several revenue sharing provisions from the operation of the Coliseum for “Rent,” “Concessions,” and “Parking.” The revenue sharing provisions for Concessions has a base revenue amount (“Base”) that is 100% retained by the contractor and a percentage of revenues greater than the minimum “threshold” being paid to the County. The threshold amounts are further tied to CPI beginning in 1980 in order to properly keep up with inflation.

The Parking revenue sharing formula was modified in 1991 to eliminate the minimum threshold. The current revenue sharing payment to the County is 12.75% of all gross parking fees collected by SMG.

Figure 1 below summarizes the revenue sharing between SMG and the County as it is applicable in 2011.

**Figure 1: Summary of Revenue-Sharing Formulas**

<b>Revenue</b>	<b>Contract Threshold (1980)</b>	<b>CPI Adjusted Threshold (2011)</b>	<b>County Share above Threshold</b>
Rent	\$ 115,000	\$ 313,886	n/a
Concessions	\$ 700,000	\$ 1,910,610	25.00%
Parking	\$ -	n/a	12.75%

##### **3.1.2 Taxes**

The “County agrees that it shall reimburse HMC [SMG] for any taxes, including a tax on the sale of a ticket, charges or assessments, which any taxing authority including the County may impose on the Coliseum where County would receive a benefit from such a tax. . . .” Therefore, the County has not collected any taxes on Coliseum ticket or concession sales.<sup>13</sup> In terms of New York State sales tax, the “County shall not reimburse HMC [SMG] for current sales tax or any increase in current sales tax. . . .”<sup>14</sup>

<sup>12</sup> Lease Agreement of 1979, Art. II-VI, pg. 4-14.

<sup>13</sup> Verified by conversation with vendor’s accounting representative on June 16, 2011.

<sup>14</sup> Lease Agreement of 1979, Art. XVI, §16.1. pg. 30.



### 3.1.3 Maintenance Responsibilities

Under the Current Agreement, SMG is responsible for the costs identified as “housekeeping duties” which include general tidiness and cleaning of the parking fields. The County is responsible for the “repair and replacement of any structural or major items” as well as security provided by the Nassau County Police Department, traffic coordination, and operation and upkeep of existing independent structures (i.e. flower beds and collection booths).<sup>15</sup>

### 3.1.4 County Agreement with the Islanders is transferred to HMC

Prior to entering into this contract with HMC, the County had in effect a separate contract with Nassau Sports, Inc., otherwise known as the Islanders. Under this amendment, all the rights and benefits of the County under that agreement (a copy could not be located) were assigned to HMC, effective January 1, 1980.<sup>16</sup>

## 3.2 County Revenue Receipts Analysis

Our analysis of the revenues received by the County under the Current Agreement from 2003 to 2010 from Rent, Concessions, and Parking were analyzed and are illustrated in Figure 2. The primary source of this data is from the Nassau Information and Financial System.

The Ticket Tax, a fourth revenue category created in 2000, added a \$1.50 surcharge on all tickets required for entrance to any facility in the County whose capacity is over 2,500 persons.<sup>17</sup> This Office calculates that on average, the County collects approximately \$794,000 annually as a result of Islanders ticket sales and \$843,000 annually from other Coliseum events.<sup>18</sup> Ticket Tax revenue from 2003 to 2010 added \$12.3 million to the SMG revenue sharing of \$8.2 million; bringing the total to \$20.5 million over the past eight (8) years. Although the Ticket Tax was separate from revenue under the Current Agreement, it is included in the analysis in order to estimate the overall County benefit from Coliseum operations.

In 2010, the County revenue from the Coliseum was approximately \$1.1 million, excluding Ticket Tax revenue. The Ticket Tax produced approximately \$1.3 million in additional revenue for total annual revenue of approximately \$2.4 million.

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<sup>15</sup> Lease Agreement of 1979, Art. X, pg. 20-21.

<sup>16</sup> Lease Agreement of 1979, Art. XXI, pg. 33.

<sup>17</sup> Nassau County Administrative Code. Art. 3: Entertainment Surcharge. Local Law 28-2000.

<sup>18</sup> Derived from Steve Antonio, Director. “Inter-Departmental Memo.” *Office of Legislative Budget Review*. Letter addressed to Hon. Peter Schmitt, Hon. Diane Yatauro, and all members dated July 15, 2011.

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**Figure 2:**

<b>COUNTY COLISEUM REVENUE - 2003-2010</b>						
<b>YEAR</b>	<b>COLISEUM RENTAL</b>	<b>COLISEUM CONCESSIONS</b>	<b>PARKING</b>	<b>TOTAL</b>	<b>TICKET TAX REVENUE</b>	<b>GRAND TOTAL</b>
2003	182,333.40	1,021,267.89	-	1,203,601.29	1,926,933.00	3,130,534.29
2004	44,940.37	616,473.51	204,904.04	866,317.92	1,249,023.00	2,115,340.92
2005	308,457.00	171,196.50	165,895.74	645,549.24	1,052,616.00	1,698,165.24
2006	240,403.47	361,944.79	185,399.89	787,748.15	1,685,182.00	2,472,930.15
2007	179,391.52	735,941.01	185,399.89	1,100,732.42	1,818,603.00	2,919,335.42
2008	315,385.13	735,649.65	173,381.82	1,224,416.60	1,569,752.00	2,794,168.60
2009	346,205.25	634,695.56	274,899.57	1,255,800.38	1,713,719.00	2,969,519.38
2010	284,379.50	618,879.28	231,868.66	1,135,127.44	1,284,524.00	2,419,651.44
<b>TOTAL</b>	<b>\$ 1,901,495.64</b>	<b>\$ 4,896,048.19</b>	<b>\$ 1,421,749.61</b>	<b>\$ 8,219,293.44</b>	<b>\$ 12,300,352.00</b>	<b>\$ 20,519,645.44</b>
Parking revenue figures are estimated for years 2006 and 2007						

It is worth noting that in 2003, 2004, 2006, 2007, 2008, and 2010, the County's Rent revenues were reduced by a total of \$620,621 due to repair offsets. Concessions revenues were also uneven over the course of the eight (8) year review period. This may be due in part to the variable number of non-Islanders events that are booked annually and decreased attendance at Islanders games. It should also be noted that in 2004/05, when no Islanders games were played because of the NHL lockout, the County's total SMG revenues did not decline significantly. This would seem to indicate that the County is able to book other events in the absence of the Islanders and thereby retain the revenue.

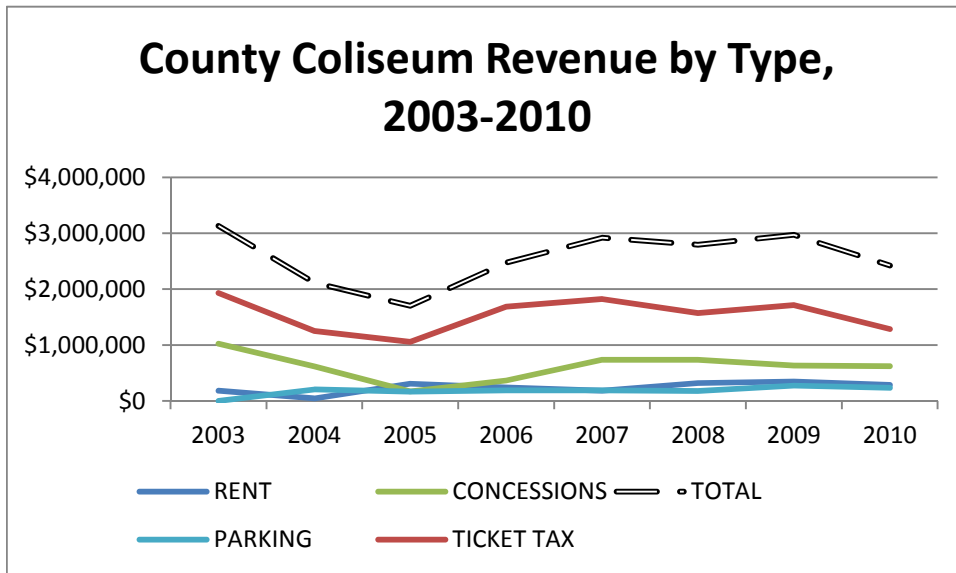
The Coliseum attendance from the Islanders and from other events is illustrated in Figure 3. The total attendance from other events exceeds the Islanders' attendance by 21%. This indicates that the County could retain revenue from the Coliseum in the absence of the Islanders.

**Figure 3: New York Islanders Attendance vs. Other Event Attendance<sup>19</sup>**

	Year	Annual NYI Attendance	Annual Third Party Event Attendance	Total Annual Coliseum Attendance	Percentage Change of attendance from prior to following year
	2003	561,413	723,209	1,284,622	N/A
A	2004	0	832,682	832,682	-35.18%
	2005	516,969	184,775	701,744	-15.72%
	2006	528,326	595,128	1,123,454	60.09%
	2007	559,240	653,162	1,212,402	7.92%
	2008	564,693	481,808	1,046,501	-13.68%
	2009	522,135	620,344	1,142,479	9.17%
	2010	453,419	402,930	856,349	-25.04%
	<b>TOTAL</b>	<b>3,706,195</b>	<b>4,494,038</b>	<b>8,200,233</b>	
A	2004-2005 - NHL Lockout - Entire NHL season was canceled				
N/A	Not applicable				

Figure 4 charts the revenue history to highlight the variations over the years based on event performance, seasonal, and socio-economic factors. This figure illustrates the significant variation in revenues that can occur in the operation of sports/entertainment facilities.

**Figure 4:**



<sup>19</sup> Islanders average game attendance figures from ESPN.go.com/nhl/attendance. Accessed July 2011.

## **4.0 COLISEUM REDEVELOPMENT PLAN**

### **4.1 Analysis of Proposed Plan**

#### **4.1.1 Background**

The redevelopment of the Coliseum site, which would include a new arena, was proposed in 2000 when Computer Associates Executives Charles Wang (“Wang”) and Sanjay Kumar (“Kumar”) purchased the Islanders for approximately \$180 million.<sup>20</sup> Wang’s intentions were revealed in 2003 when he partnered with real estate developer Scott Reckson of RXR Corporation to advocate for site redevelopment, officially known as the “Lighthouse Project.”<sup>21</sup>

In 2004, the Lighthouse Development Group L.L.C. (“LDG”) was formed and publicly announced its intention to redevelop the 77 acre site. In 2005, County Executive Thomas Suozzi issued a Request For Proposal (“RFP”) to gauge other entities’ interest in redeveloping the site and test the viability of the plan. The following year, the winning bid was awarded to LDG over co-bidders Polimeni International/The Cordish Company, Engel Burman Kabro Coliseum Development L.L.C., and the Coliseum Development Corporation.<sup>22</sup>

For the next two years, the Town of Hempstead (“TOH”) voiced concerns regarding the scale of the proposed buildings and the density of the zoning level requested. The Lighthouse Project was subsequently modified to reflect the concerns of the community. Halting the progress of the project, Wang issued an October 2009 deadline to the zoning board to render a decision on the Lighthouse Project. Wang threatened that a failure to meet the deadline would compel him to relocate the Islanders. Nonetheless, the TOH zoning board rejected the proposal and requested changes to the site.<sup>23</sup>

#### **4.1.2 New Sports Arena**

At a press conference in May 2011, both Wang and the County Executive announced the “Economic Development and Job Creation Plan” that outlined a revitalized plan to build a new Sports Arena and a Minor League Ballpark at the site of the current Coliseum.<sup>24</sup> The development of the surrounding property, originally mentioned in the LDG project

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<sup>20</sup> Neil Best, “Islanders ‘not for sale,’ Wang insists,” *Newsday*, December 23, 2010. Accessed June 2011. <http://www.newsday.com/long-island/nassau/islanders-not-for-sale-wang-insists-1.2567094>

<sup>21</sup> Jim Baumbach, “Charles Wang regrets buying Islanders,” *Newsday*, May 2, 2009. Accessed June 2011. <http://www.newsday.com/news/charles-wang-regrets-buying-islanders-1.1230247>

<sup>22</sup> Eric C. Naughton. “Preliminary Review of Nassau Veterans Memorial Coliseum,” *Nassau County Legislature – Office of Legislative Budget Review*, June 15, 2006. Accessed June 2011. <http://www.nassaucountyny.gov/agencies/OLBR/Docs/PDF/June06coliseumrpt.pdf>

<sup>23</sup> “Lighthouse project: What’s happened, and what hasn’t,” *Newsday*, September 19, 2009. Accessed June 2011. <http://www.newsday.com/long-island/nassau/lighthouse-project-what-s-happened-and-what-hasn-t-1.1462594>

<sup>24</sup> Mangano, Ed. “Economic Development and Job Creation Plan.” *Office of the Nassau County Executive*. May 2011.

plan, would be considered separately. The proposed redevelopment of Mitchel Field would hinge on the construction of a new Arena, which would remain the home of the Islanders. This new Arena would hold 17,500 seats for hockey games and 20,000 seats for concerts.<sup>25</sup> These new capacity estimates would result in a 7.4% increase in seating for hockey games from the current 16,297 and a 10.5% increase from the current 18,100 seating capacity for concerts.<sup>26</sup>

#### **4.1.3 Project Funding Requirement**

To fund the redevelopment plan, the County Executive has asked the County taxpayers and the Legislature to authorize the borrowing of \$400 million over a 30 year period. This total comprises of a \$375 million maximum allotted for the Arena and \$25 million for the Ballpark.<sup>27</sup> The OLBR estimates that the debt service on the \$400 million bond (non-tax exempt) would require approximately \$29.3 million annually.<sup>28</sup> The debt service cost on the \$350 million minimum for the new Coliseum would be \$25.6 million.

## **4.2 Agreement with Arenaco To Operate Arena**

In order to fund the borrowing, the County Administration has proposed entering into a lease agreement with Arenaco, a newly formed Delaware organization. The implication is that the Islanders will agree to sign a subordinate agreement to stay as the anchor tenant for 30 years until 2045. The Proposed Agreement also provides for revenue sharing at 11.5 % of all revenues (excluding television rights) payable to the County.

The Proposed Agreement is not in its final form and may undergo significant material changes. The most concerning aspects are:

- 1) Arenaco, as Tenant, has neither the assets nor credit history to stand behind its commitments on the minimum payments to the County and construction cost overruns;
- 2) The Islanders subordinate agreement will be negotiated separately from the Master Lease Agreement and the nature of the Islanders' guarantee as the anchor Tenant is unknown (the Administration has notified us that this agreement is forthcoming);

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<sup>25</sup> Randi F. Marshall and Richard Brodsky, "Mangano, Wang want new Islanders arena," *Newsday*, May 11, 2011. Accessed June 2011. <http://www.newsday.com/sports/hockey/islanders/mangano-wang-want-new-islanders-arena-1.2869053>

<sup>26</sup> SMGworld.com. "Nassau Veterans Memorial Coliseum." Accessed June 2011. [http://www.smgworld.com/profile\\_details.aspx?cal=12](http://www.smgworld.com/profile_details.aspx?cal=12)

<sup>27</sup> Mangano, Ed. "Economic Development and Job Creation Plan." *Office of the Nassau County Executive*. May 2011.

<sup>28</sup> Steve Antonio, Director. "Inter-Departmental Memo." *Office of Legislative Budget Review*. Letter addressed to Hon. Wayne Wink dated May 19, 2011.

- 3) The revenue sharing provisions for non-Islanders events is unclear (the Administration has notified us that this agreement is forthcoming); and
- 4) The Sublease and Assignment terms should require the County's sole approval.

### **4.3 Reasonableness of Construction Estimates for Similar Facilities**

In the Proposed Agreement, Arenaco has guaranteed to pay all cost overruns over \$350 million associated with the Arena's construction, which can be satisfied with a credit worthy co-signatory or by obtaining a letter of credit in an agreeable amount.

#### **4.3.1 Analysis of Construction Costs of the Prudential Center**

The Prudential Center in Newark, New Jersey is the newest hockey arena in the tri-state area. Due to its age, proximity to the County, and capacity, it is an appropriate comparison to the Arena. Its 17,625 seating capacity for hockey and 18,500 for basketball games, is comparable to the capacity estimates planned for the Arena. The original cost for the Prudential Center was estimated in 2006 at \$310 million, of which the New Jersey Devils contributed about \$100 million or 32%.<sup>29</sup> When its doors opened in October 2007, the total cost had risen to about \$375 million, or 21% over budget.<sup>30</sup>

Adjusted for CPI inflation, construction costs for the Prudential Center would cost about \$409 million in 2011 dollars.<sup>31</sup> If we assume that CPI continues at a rate of 2.5%, then the equivalent cost in 2015 would be \$451 million.

#### **4.3.2 Construction Analysis of Minor League Ballparks**

The cost to build a ballpark will vary depending on its size and seating capacity. The County has chosen the Atlantic League that only requires an approximately 6,000-seat ballpark.

Construction for an Atlantic League ballpark can take up to a year and can generally cost between \$19 and \$33 million. For example, Bethpage Ballpark in Suffolk County, home of the Ducks, cost \$22 million to build in 2000.<sup>32</sup> Sovereign Bank Stadium in Pennsylvania, home of the York Revolution, cost \$33 million in 2007.<sup>33</sup> The Ballpark at Harbor Yard, home of the Bridgeport Bluefish, cost \$19 million in 1998. Assuming the 2.5% forward CPI used above, these ballparks would cost roughly \$31 million, \$38.7

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<sup>29</sup> John Brennan, "Devils give \$100 million guarantee for Newark arena," *The Record*, January 25, 2006. Accessed June 2011. <http://www.accessmylibrary.com/premium/0286/0286-12459470.html>

<sup>30</sup> Prucenter.com. "Prudential Center." Accessed June 2011. <http://www.prucenter.com/default.asp?id=88>

<sup>31</sup> bls.gov. "CPI Inflation Calculator." Accessed June 2011. [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm)

<sup>32</sup> AtlanticLeague.com. "Long Island Ducks." Accessed June 2011. <http://www.atlanticleague.com/teams/longisland.php>

<sup>33</sup> AtlanticLeague.com. "York Revolution." Accessed June 2011. <http://www.atlanticleague.com/teams/york.php>

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million, and \$28.4 million, respectively in 2014. Therefore, considering an average CPI, the estimated cost to build a similar ballpark by 2014 would be \$28 to \$39 million.

## **5.0 ECONOMIC PROJECTIONS AND PROPOSED AGREEMENT**

The Owner's Initial Economic Benefit Analysis for the Arena was submitted to the County as a basis for negotiating an 11.5% revenue sharing Agreement with the County.

The attorneys acting for the County asked CSL to evaluate the Owner's analysis for reasonableness. CSL delivered its evaluation and found "significant concerns" including:

- 1) As is customary in similar industry analysis, revenue projections for playoff games should be excluded considering the Islanders have not advanced to the second round of the playoffs since 1993;
- 2) Third-party events are triple the number that can be reasonably estimated;
- 3) Sponsorship and naming rights revenues are 125% higher than normal;<sup>34</sup> and
- 4) Premium club seating pricing and sales projections are double what would be reasonable based on the industry average.

The IDA subsequently retained Camoin to perform an economic impact analysis on the benefits to the County from the construction of a new Arena. The Camoin study took into consideration the Owner's revenue analysis, the CSL study, relevant industry experience, and the broader potential economic activity from the building of the new Arena. The Camoin study's assumptions were somewhere between the Owner's and CSL's assumptions. The IDA/Camoin study projected that there would be sufficient revenue to pay the \$350 million in borrowing as well as derivative economic benefits in jobs and sales tax revenue.

Although the Camoin economic analysis projections appear to be optimistic as commented in the OLBR analysis dated July 15, 2011, they are not unreasonable.

The assumptions and the resulting projections by the various studies are informative. However, they are not substitutes for contractual terms required in an agreement to ensure that the County taxpayer is protected. In order to ensure that the economic projections are realized as represented by the Owner and Camoin, the following terms on revenue sharing, revenue guarantees, cost overrun protections, and the Islanders' commitments to remain in the County should be included in the Proposed Agreement. We understand that these protections are already under negotiation.

- 1) The Tenant's contractual performance as well as the payment commitments on cost overruns should be guaranteed.

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<sup>34</sup> It appears that the Proposed Agreement contains language in §4.1(r) that identifies the name of the Arena as "Nassau Veterans Memorial Coliseum." However, the parties to the Proposed Agreement recognize that ongoing negotiations may be necessary to maximize facility revenue by entering into third-party naming-rights agreements while at the same time honoring the United Veterans Organization members.



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- 2) The Proposed Agreement and the Islanders agreements should be concurrently reviewed and executed.
- 3) The 11.5% revenue sharing on non-Islanders events needs to be clarified as to whether the Tenant will be responsible for this payment.
- 4) Assignments or Subleases should not be allowed without the County's approval in its sole discretion in order to protect revenue sharing and minimum payments.
- 5) The County should retain the development rights on the 77 acres surrounding the Coliseum to allow for future economic development.

The Comptroller's Office will work with the County Executive and the Legislature to ensure that a final agreement adequately protects the taxpayer. We will analyze the final agreement once it is presented to this Office and independently confirm the benefits and risks. Until then, it would be inappropriate for the Comptroller to further speculate as to what the finalized contractual terms will be and synthesize an economic analysis based on these hypotheses.