



NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Preliminary Review of Nassau Veterans Memorial Coliseum

Eric C. Naughton, Director

June 15, 2006




ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
ONE WEST STREET
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Judy Jacobs, Presiding Officer
Hon. Peter Schmitt, Minority Leader
All Members of the Nassau County Legislature

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: June 15, 2006

Re: Preliminary Review of the Nassau Veterans Memorial Coliseum

Attached please find a preliminary review of the coliseum development proposals. The purpose of the report is to provide the Legislature with an independent assessment of the potential benefits associated with the Nassau Veterans Memorial Coliseum renovation and the development of the surrounding acreage.

Our report incorporates the analyses and findings provided to date by our consultant, C. H. Johnson Inc. The analyses presented by the consultants are in draft status as they are currently being reviewed by my staff and will be updated as details of the winning development plan become more defined. Some time after the County Executive submits a proposed lease to the Legislature for approval I will issue a final report from our consultant.

As it is not our role to make recommendations, this report serves to discuss and quantify the impact of the various proposals only.

cc: Helena Williams, Deputy County Executive, Compliance
Rich Luke, Executive Director, NIFA

Table of Contents

I. Introduction..... 1

II. Background 2

III. Assumptions..... 7

IV. Public-Costs 10

V. Methodology 11

VI. Findings 16

VII. Summary of Results 19

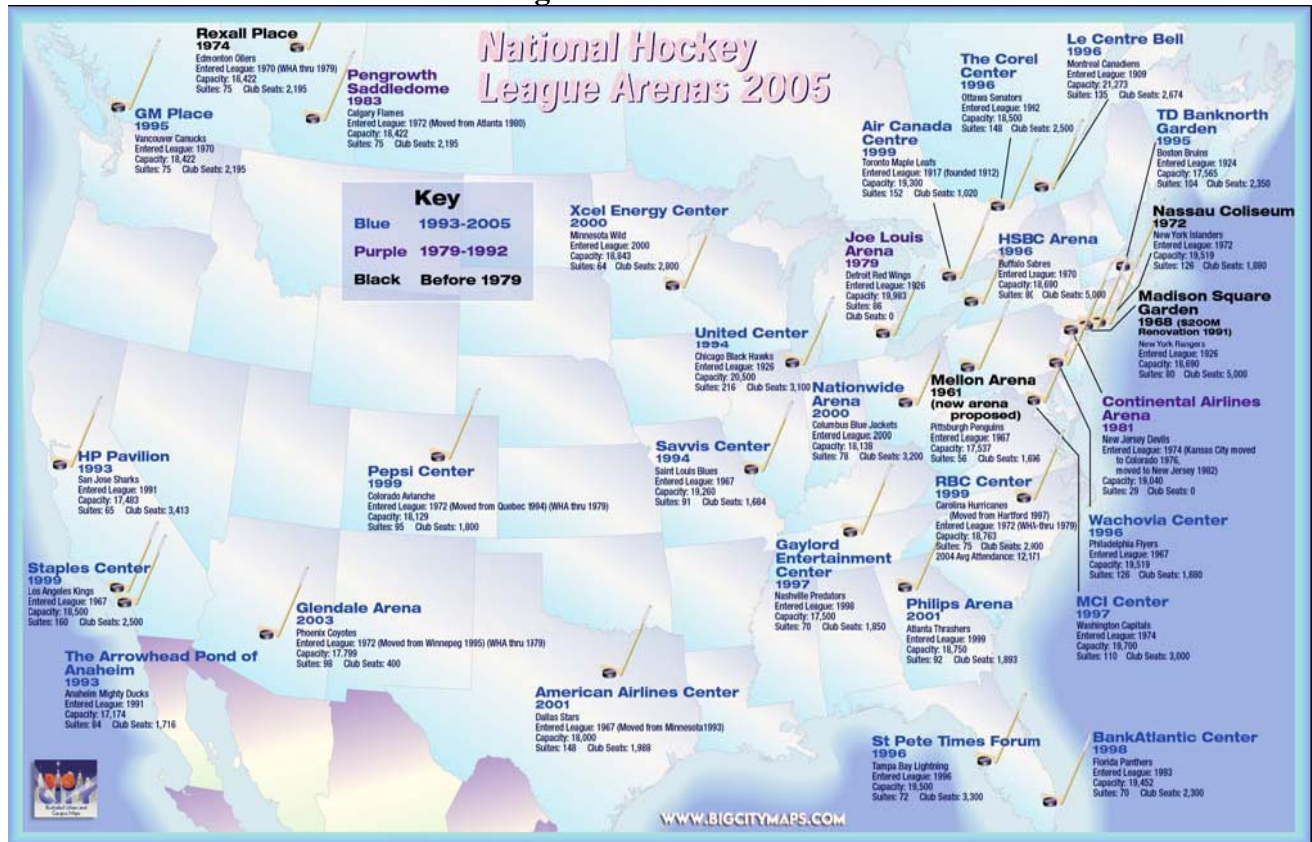
VIII. Conclusion..... 22

I. Introduction

The Office of Legislative Budget Review (OLBR) was asked to provide the Legislature with a fiscal and economic impact report on the proposed redevelopment of the Nassau Veterans Memorial Coliseum (the Coliseum) and the 77-acres site. To facilitate this, a Request for Proposals (RFP) was issued to obtain consulting services from a firm capable of performing both a fiscal and economic impact analysis on a sports-based real estate transaction. C.H. Johnson Inc. was selected to perform the requested services.

C.H. Johnson is an international real estate and sports consulting firm with extensive national experience. They have performed many similar analyses for local and state agencies. C.H. Johnson joined with Washington Square Partners (the Consulting Team) to undertake this project. Washington Square Partners is a New York City based real estate consulting firm. Washington Square Partners has provided development advisory services since 1995. They have served a wide range of clients from government agencies to independent developers.

Figure 1: NHL Arenas



The Nassau Veterans Memorial Coliseum, owned by Nassau County is currently the second oldest venue (see Figure 1) with one of the smallest capacities (16,234) in the National Hockey League. The New York Islanders (Islanders) play in the circa-1972 Nassau Coliseum under a lease agreement with the County. Spectacor Management Group (SMG) operates the Coliseum under an agreement

with the County, which runs through 2015. If the existing lease remains in place, the financial performance of the facility and County could be negatively impacted based on the following:

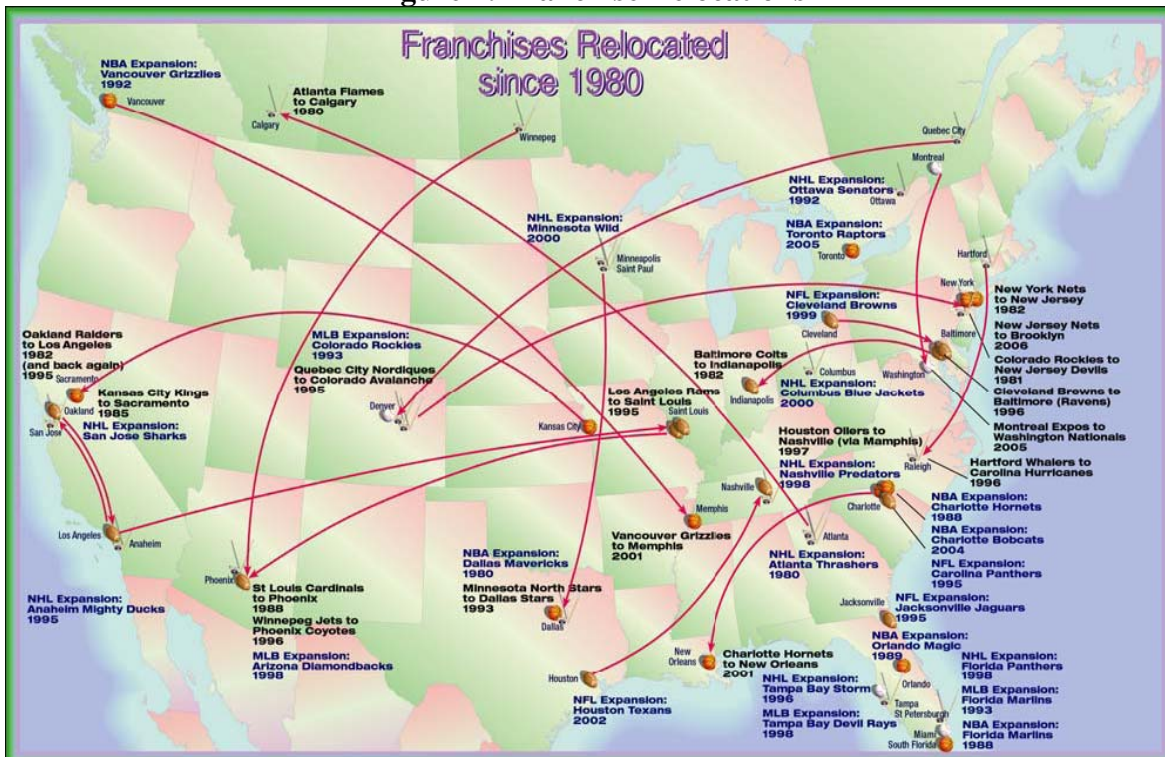
1. The team is assumed to leave in 2015, severely reducing income from all shared revenue sources and entertainment tax collections.
2. Deferred maintenance issues will need to be addressed by 2015; at least \$20 million will be needed for major capital items simply to keep the facility fully-functional.
3. Total revenue during the period is estimated to be \$67 million with total expense of more than \$106 million. The resulting \$39 million loss for the county averages approximately \$2 million annually.
4. The status quo generates no additional spending to the economy.

II. Background

A. Sports Facility

Financing of large public-use facilities such as arenas is always a challenge. Public entities consistently debate whether it will be worth the cost, how the project costs will be funded, whether the land can be used for something better, and if it is an appropriate use of public funds. Proponents for new or renovated sports facilities base their argument on the economic benefits that a new facility can bring to the community. Opponents frequently point out that many economic impact studies find that the benefits may not be substantial. However, the intangible benefits a professional sports team can bring to the community also play a large part in any decision to build new or renovated sports facilities. Figure 2 provides an illustration of relocated sports franchises since 1980.

Figure 2: Franchise Relocations



Preliminary Review of Coliseum Development Proposals

For Nassau County, the debate is especially strong as competition among existing and planned facilities are at a peak within the New York/New Jersey areas, with two new arenas set to come online by 2008. These new facilities are likely to draw top events that may bypass the Coliseum if additional revenue generating amenities are not added. In addition, the tenants within the Coliseum are losing money and could threaten to relocate to a different location offering a state-of-the art facility.

Table 1

Sports Facility Construction in the U.S. Since 2000					
Location	Professional Sport	Year Opened	Total Cost (in millions)	Public Subsidy (in millions)	Age of Replaced Facility
Charlotte, NC	Basketball	2005	\$200	\$100	17
San Diego, CA	Baseball	2004	\$450	\$304	36
Philadelphia, PA	Baseball	2004	\$346	\$172	33
Memphis, TN	Basketball	2004	\$250	\$217	0
Houston, TX	Basketball	2003	\$234	\$118	28
Chicago, IL *	Football	2003	\$578	\$387	79
Green Bay, WI *	Football	2003	\$295	\$295	46
Cincinnati, OH	Baseball	2003	\$297	\$297	33
Philadelphia, PA	Football	2003	\$510	\$200	32
Glendale, AZ	Hockey	2003	\$207	\$180	11
Detroit, MI	Football	2002	\$306	\$199	27
Houston, TX	Football	2002	\$310	\$195	0
Foxboro, MA	Football	2002	\$332	\$0	31
Seattle, WA	Football	2002	\$408	\$306	26
San Antonio, TX	Basketball	2002	\$179	\$147	9
Denver, CO	Football	2001	\$417	\$313	53
Pittsburgh, PA	Football	2001	\$263	\$183	31
Dallas, TX	Hockey/Basketball	2001	\$438	\$219	31
Milwaukee, WI	Baseball	2001	\$410	\$317	31
Pittsburgh, PA	Baseball	2001	\$273	\$231	31
Cincinnati, OH	Football	2000	\$479	\$479	30
Detroit, MI	Baseball	2000	\$319	\$122	88
Houston, TX	Baseball	2000	\$266	\$191	35
Columbus, OH	Hockey	2000	\$150	\$0	0
St. Paul, MN	Hockey	2000	\$135	\$105	0
Average		2002	\$322	\$211	30
* Renovation					
Source: Revenues from Sports Venues, Johnson Consulting					

While market demographics and competition clearly play a role in the potential success of an arena, the most important factors are management and the anchor tenancy of one or more sports teams. Both factors drive the majority of events that an arena depends upon for income. In Nassau County, both a National Hockey League (NHL) hockey franchise and an Arena Football League (AFL) franchise play at the Coliseum. For our purposes, if the County moves forward with an arena renovation, it is imperative that the requirements of these franchises are met in order to ensure their

long-term tenancy and viability. Public subsidization of sports arenas is commonplace within the industry. Municipalities must offer to construct venues that supply team owners the necessary revenue generating items in order to keep the franchises. Since 2000, public funding has accounted for approximately 66 percent of the total cost of sport facility construction in the U.S as illustrated in Table 1. For those municipalities that are unwilling to provide public support, they often lose their franchises, as 12 major professional teams have relocated since 1992. Currently, Kansas City, Missouri is building a new venue with all the modern day amenities with the hope of attracting a franchise that currently plays in an outdated facility.

More recently, between 1992 and 2005, twelve teams have uprooted themselves from Minneapolis, Quebec, Cleveland, Los Angeles (the Rams and the Raiders), Winnipeg, Houston, Hartford, Montreal, Charlotte, and Vancouver. They relocated because their host municipality would not build them a new venue, or competing municipalities offered the owners a better deal. In addition, approximately 20 other municipalities retained their teams by remodeling or building a sports facility.

B. Entertainment Market

Over the last two decades, there has been a proliferation of arena-sized entertainment events. This growth in product has proceeded in tandem with the development of new arenas in mid-sized and suburban markets, which allows these event-types to play in more locations as they travel across the country. Where this segment of the arena demand once consisted primarily of the occasional circus event or the appearance of the Harlem Globetrotters, it now can be broken down by circuit and categorized according to the target audience segment.

The circuits consist of touring shows which move from one large market arena to another, seeking to place product in environments with the highest yield. An example of this would be a Rolling Stones tour, which might move from Madison Square Garden in New York to the Wachovia Center in Philadelphia to the MCI Center in Washington DC. The promoter is seeking to draw an audience from a large geographic area, while the arena owner offers a newer facility that allows for maximum revenue capture based on merchandising opportunities, suite rental, and corporate sponsorship. Over the last decade, a clear second-tier circuit has emerged that targets suburban and mid-sized markets. In this instance, an act such as Disney on Ice may circulate from mid-market to other smaller markets in order to be accessible to families; or an act may make a second stop in an area at the backend of a tour, as has been the case with the Cher “Farewell” tour in which she toured major arenas first and then toured markets such as Des Moines. In each case, market coverage, geographic location, economic characteristics, and ticket price support are the critical factors.

Arena-based entertainment events can roughly be categorized as concerts, family shows, and non-franchise sports. Concerts represent everything from touring musical acts to highly-stylized, large-scale theatrical productions to comedy acts. Family shows consist of events such as Disney on Ice, Sesame Street Live, and Bear in the Big Blue House. Non-franchise sports are professional wrestling, monster-trucks, and emerging sports festivals such as the highly successful “Tony Hawk’s Boom Boom Huck Jam,” which paired skateboarding, freestyle BMX, and moto-cross in a festival atmosphere.

According to statistics reported by *Amusement Business*, events such as these, in facilities between 5,000 and 10,000 seats can often achieve gross per show revenues in excess \$1 million, which underscore their economic appeal and makes a strong statement about the contribution of the operating environment of a mid-sized venue.

Johnson Consulting interviewed event promoters and presenters that are active in each of the circuits and categories described above to solicit their impression and interest in the Nassau County market. In particular, Johnson Consulting interviewed Feld Entertainment, one of the largest promoters of the facility and considered the largest tenant of the Nassau Coliseum after the Islanders. Feld promotes 36 engagements during the year, promoting family shows such as Ringling Brothers and Barnum & Bailey Circus and Disney On Ice.

According to Feld, the Nassau Coliseum has created a monopoly in the Long Island area. People who live as far east as Suffolk County really have no other choice but to use this venue because it is the only major arena offering on Long Island. However, the people of Nassau County can commute to Madison Square Garden if so desired, so there is competition for events and for attendees. Feld feels that the Coliseum will lose events if not replaced or renovated because the venue is deteriorating and is littered with dirty torn seats and bathrooms. Feld has experienced a decline in attendance at some of their events and attribute it to the deterioration of the building.

Artists play at the Coliseum because of the market available on Long Island. According to Feld, the Nassau Coliseum does not and will not directly compete with the Madison Square Garden (MSG) for acts because artists will play at MSG regardless due to its mystique and location. However, new competition from the Brooklyn Arena will change the landscape and allow citizens a new choice in entertainment, which will further hurt the Coliseum's performance. Feld believes the Coliseum must be renovated to retain and improve upon its market share. The overall conclusion of Feld is that if the Nassau Coliseum is not renovated then it will lose more event goers and major acts.

C. County RFP

In October 2004, the owner of the Islanders (Charles Wang) announced plans to renovate the Coliseum and develop the 77 acres that surround the venue under the entity Lighthouse Development Group, LLC. In August 2005, in an effort to determine if there were any alternative developers interested in the Coliseum site the County issued an RFP. In addition to Lighthouse, the County received proposals from Polimeni International/The Cordish Company, Engel Burman Kabro Coliseum Development LLC (EBK1 and EBK2) and the Coliseum Development Corporation (CRC).

The report that follows outlines the estimated economic and fiscal benefit from the various proposals. Our report explains the methods used to develop the estimates and discusses the results of the analysis. OLBR's Consulting Team and the Administration's consultants Hamilton, Rabinovitz & Alschuler, Inc. (HRA) and Convention, Sports & Leisure International (CSL) made common assumptions about how to treat the submittals. This was important due to the lack of specificity from some of the developers and in order to have a similar base for comparison purposes. Subsequently the developers did provide some detail, but since the scope of the final development will probably differ from what has been presented we did not feel that it was essential to constantly update the

findings. The agreed upon assumptions provide a sufficient basis for providing the Legislature with the comparative impacts of the various developers. These include:

- Size of development
- Timing of construction
- Certain other assumptions unique to individual submittals

III. Assumptions

There are also a number of assumptions that were made regarding the developments by our Consulting Team. The general assumptions appear in Table 2.

Table 2

Nassau County Veterans Memorial Coliseum Site Redevelopment					
Land Use	Lighthouse	CRC	EBK 1	EBK 2	Polimeni/Cordish
Retail/Entertainment					
Square Footage	500,000	1,000,000	100,000	100,000	340,000
Net Rentable %	90%	90%	90%	90%	90%
Office					
Square Footage	600,000	500,000	2,000,000	0	1,700,000
Net Rentable %	90%	90%	90%	90%	90%
Residential					
Square Footage	3,000,000	2,000,000****	960,000	960,000	650,000
Net Living Area	90%	90%	90%	90%	90%
Unit Average Size (SF)	1,100	818	1,100	1,100	1,100
Total # of Units	2,455	2,200	785	785	532
Workforce-Condo					
Workforce-Rental	20%	20%	25%***	25%***	15%
Senior					
Hotel					
Square Footage	300,000	500,000	NONE	NONE	NONE
Rooms	300*	200	NONE	NONE	NONE
Meeting Space					
Square Footage	250,000**	250,000	NONE	NONE	NONE
Net Function Space	130,000**	110,000	NONE	NONE	NONE
Coliseum Renovation					
	\$320 million renovation	\$300 million renovation (\$200 for Coliseum/\$100 for parking) ****	Not included	Assigned to another entity	\$150 Million renovation or Potentially not included
	Guarantees Islanders stay in Coliseum thru 2025. Consulting Team assumed they stay for 99 yrs.	Consulting Team assumed they stay for 99 years	Consulting Team assumes no major improvements. Team leaves in 2016.	Consulting Team assumes no major improvements. Team leaves in 2016.	Consulting Team assumed \$150 million renovation, then team leaves in 2016.
Parking					
Spaces	11,500	17,874	9,600	9,600	14,200
Net of Coliseum	3,500	9,874	3,400	3,400	0
Other					
Baseball Stadium	na	6000- seats	na	na	na
	Work with Government to accomplish this goal	Monorail	Will work with County	Will work with County	Will work with County
Transportation					

*Will also upgrade the existing Marriott property. Improved performance of Marriott not included in analysis
 **Includes Convection Center and two hotel properties. !30,000 is net function space in non-hotel property.
 ***This includes 200 work force/next generation units;200 market rate units for individuals 55+; and 400 non-age restricted units.
 ****Specified by submittal that unit count is 2,200.
 Source: Johnson Consulting

Where relevant the following assumptions were used for the various proposals:

A. Retail

- A 90 percent net rentable/usable area is assumed.
- Development cost per square foot of \$290 in 2009 dollars (\$265 in current dollars). This includes both landlord and tenant build-out costs.
- Portion of development dollars spent in County is assumed to be 67 percent.
- Occupancy by rent-paying tenants is projected to be 92 percent throughout the period.
- Sales per square foot are expected to be \$450 in 2009 dollars.
- Rent per square foot is expected to be \$40 in 2009 dollars.
- Sales tax is assumed to be 4.25 percent.
- The inflation rate is assumed to be 3.0 percent for retail.
- The discount rate is assumed to be 6.0 percent.
- The cap rate (used for market valuation) is projected to be 8.5 percent.
- Market value is calculated by taking rental income, subtracting 25 percent for vacancy and expenses, and dividing the result by the terminal cap rate.
- Assessed value for taxes is calculated by taking one (1.0) percent of market value. The rate is per \$100 of assessed value.
- Public infrastructure costs are estimated to be \$3.13 per square foot in 2009 dollars.
- The business tax exemption is a 50 percent reduction in property taxes in the first year, decreasing by five percent in each successive year.

B. Hotel

- Development cost was figured per room at \$191,000 in 2009 dollars (\$175,000 in current dollars).
- The taxable spending outside the site new to the County is projected to be \$20 per occupied room.
- The hotel tax rate is 3.0 percent.
- The inflation rate is 3.0 percent.
- Additional average daily rate growth of 0.25 percent is projected in each year due to the strength of the market.
- The cap rate for valuation purposes is 9.0 percent.
- The market value is figured by taking the gross hotel revenue, multiplying by the net operating income (NOI) percent, and dividing the result by the cap rate.

C. Residential

While each developer proposed a mix of residential allocations (some rental potentially, some workforce housing, some apartment), the Consulting Team assumed with the Administration's consulting teams that because the market will ultimately dictate the response, they assigned a blended average size at 1,100 square feet for all but the CRC proposal (which was very specific). In order to value them correctly, all were assumed to be condo and not rental apartment. The value of the condos is a blend between the workforce amount (assumed to be 20 percent) and the market-rate amount.

- Cost of development is assumed to be \$160 per square foot (\$146 in current dollars). This is a blended rate for both market and workforce housing.
- Residents per unit are assumed to be 1.40.
- Market value is determined using typical value per square foot for higher-end condos. It translates to \$174 per square foot in 2009 dollars.
- Occupancy rate is assumed to be 95 percent throughout the analysis period.
- The median effective buying income (EBI) per household is projected to be \$67,375. This figure is based on the current EBI and increased by the rate of inflation.
- The household spending percent in-County is assumed to be 50 percent.
- 75 percent of in-County spending by households is assumed taxable.
- The real growth rate (additional) to the inflation rate is assumed to be 0.5 percent.
- The public costs (County provided safety, services, etc.) per new resident are estimated at \$488 in 2009 dollars.

D. Office

- Net rentable area is assumed at 90 percent of gross building area.
- The development cost per square foot is assumed to be \$191 in 2009 dollars (\$175 in current dollars). The percent of development spending in the County is 67 percent.
- Rent per square foot is expected to be \$34 in 2009 dollars, which is a 10 percent premium (for new factor and location) over the average expected office rental rate in that year. The current average rate is \$28.
- Market value was determined by taking total rent revenue, less 30 percent for vacancy and expenses, with the result divided by the terminal cap rate of 8.0 percent.
- Total numbers of employees were calculated as they will have spending impacts. The number is assumed to be one employee per 250 square feet of net rentable area.
- The percent of employees net new to the County is assumed to be 35.
- Onsite spending by employees is assumed to be counted in the other use models. Offsite spending by employees is assumed to be \$1,250 per year in 2009 dollars.

E. Convention/Meeting Space

Lighthouse and CRC were the only ones to include convention/meeting space (outside the hotel).

- Development cost is \$203 per square foot.
- The development is expected to be complete in one phase in 2012.
- The net new events are projected to be 20 annually in addition to those already held in the Coliseum.
- Average length of event is projected to be 2.5 days.
- 40 percent of attendees are projected to be net new to the County (non-local).
- Attendee spending in the facility is projected to be \$20 and \$40 outside the facility.
- Exhibitors are expected to average 144 per event with \$500 in spending per exhibitor.
- Cap rate is projected to be 10.0 percent.
- Market value is assumed to be 15 percent of gross revenue divided by the cap rate.

F. Parking

- Square footage per net space is 150.
- Development cost per space is \$18,548 in 2009 dollars.
- Average revenue per day is \$1.00 per space in 2009 dollars.
- The cap rate is 10.0 percent.
- Public infrastructure costs are projected to be half that of the other development types, or \$1.57 in 2009 dollars.

G. Coliseum

- The number of future events is 226 compared to 197 today.
- Future Islander attendance per game is projected to be 14,338 per game compared with 11,000 today.
- Future other attendance is projected to be 1,041,310 compared with 784,750 today.
- Existing taxable ticket revenue is assumed to be approximately \$49.4 million and future taxable ticket revenue is assumed to be approximately \$80 million.
- Existing other building revenue is assumed to be approximately \$9.9 million and future other building revenue is assumed to be approximately \$16.1 million.
- The entertainment tax is projected to remain at 1.50 per ticket and the tax rate of 4.25 percent is expected to remain for the analysis period.

IV. Public-Costs

Public Infrastructure costs are separated out from the other public costs and are assumed at \$3.13 per square foot of development (in Year One/ 2009 dollars). This is a relatively high number (the costs to the County will likely be lower) as most of the streets, utilities and other items will be paid for by the developers themselves. We have erred on the side of caution in relation to initial public infrastructure costs. This assumption is applied to all development components of all submittals.

Public Safety, Public Works, and Sewage Costs are combined as a single line-item, "Public Costs." It was assumed at \$488 per resident (in Year One/ 2009 dollars). Public safety costs for the County are \$677 million as of 2006, or approximately \$500 per capita. For the residential component of the proposed redevelopment options, we assumed that each new resident will, due to economies of scale, cost the County less per capita than the existing residents. We set that rate at approximately 80 percent of the per capita rate. This equals \$400 in 2006 dollars. Public works costs for the County are \$80 million as of 2006, or approximately \$60 per capita. We assumed that the same principle applies and that each new resident will cost the county 80 percent of the current per capita rate. This equals \$47 in 2006 dollars.

Ongoing sewage costs were assumed to be a net cost of zero to the County. The profit and loss statement of the Sewage District via its rate schedule provides that users pay the ongoing costs to the County for sewage and wastewater. Each year, the district essentially breaks even or has a surplus.

There is no ongoing net loss to the County from the utility. There is also no gain. It is set up to be, with annual minor fluctuations, a net wash for the County. As such, we did not assume this development would have ongoing costs to the County.

Total ongoing Public Costs per capita therefore are assumed at \$447. Inflated by 3 percent each year, the 2009 total is \$488 per capitat. Of this amount, 89 percent is public safety-related while 11 percent is public works.

V. Methodology

In order to complete its market analysis for the Project, Johnson Consulting and Washington Square Partners performed the following tasks:

- Analyzed economic and demographic characteristics of the New York Metropolitan Area, Long Island and Nassau County, such as population, employment, and corporate presence,
- Collected and analyzed data on the county-wide and competitive hotel, retail, office and residential markets,
- Analyzed existing arenas and proposed sports facility deals in the area and interviewed property management,
- Analyzed the proposed lease agreements,
- Surmised the highest and best use for the Nassau Coliseum site,
- Assessed the experience of other markets that have developed arenas and associated development projects and evaluated their relevance for the proposed Lease, and
- Projected the fiscal and economic impacts of the proposed redevelopment options.

As part of our analysis, and in conjunction with our consultant's review, the following exhibits summarize the fiscal and economic impacts to the County from the proposed development. Due to the complexity of such an analysis, these illustrations, we believe clarify the methodology undertaken. Exhibit I highlights the economic impacts of one-time construction activities during the first phase of development, including the direct, indirect and induced impacts resulting from spending, earnings received, and jobs created for construction workers. Exhibit II captures the economic impact of recurring activities, such as spending, earnings and employment created at the newly developed venues. Lastly, Exhibit III outlines the fiscal impact to Nassau County from the revenue side. We summarize the tax sources in connection with the various project components including the Coliseum, Ballpark, Residential, Office, Retail, Parking, Convention Center and Hotel facilities, notwithstanding costs of public expenditures.

Exhibit I

Phase 1: Economic Impact of One-Time Construction Activities

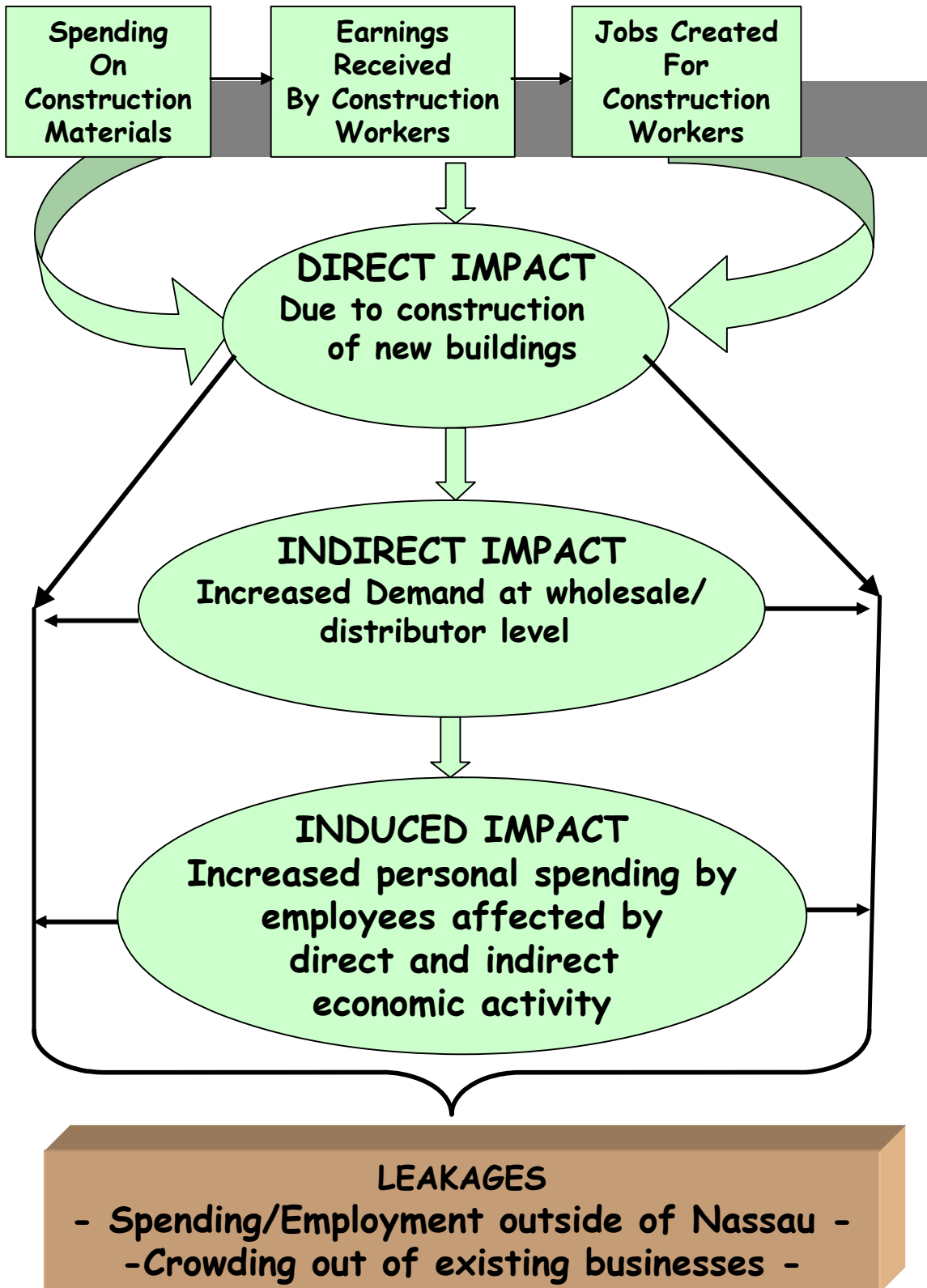
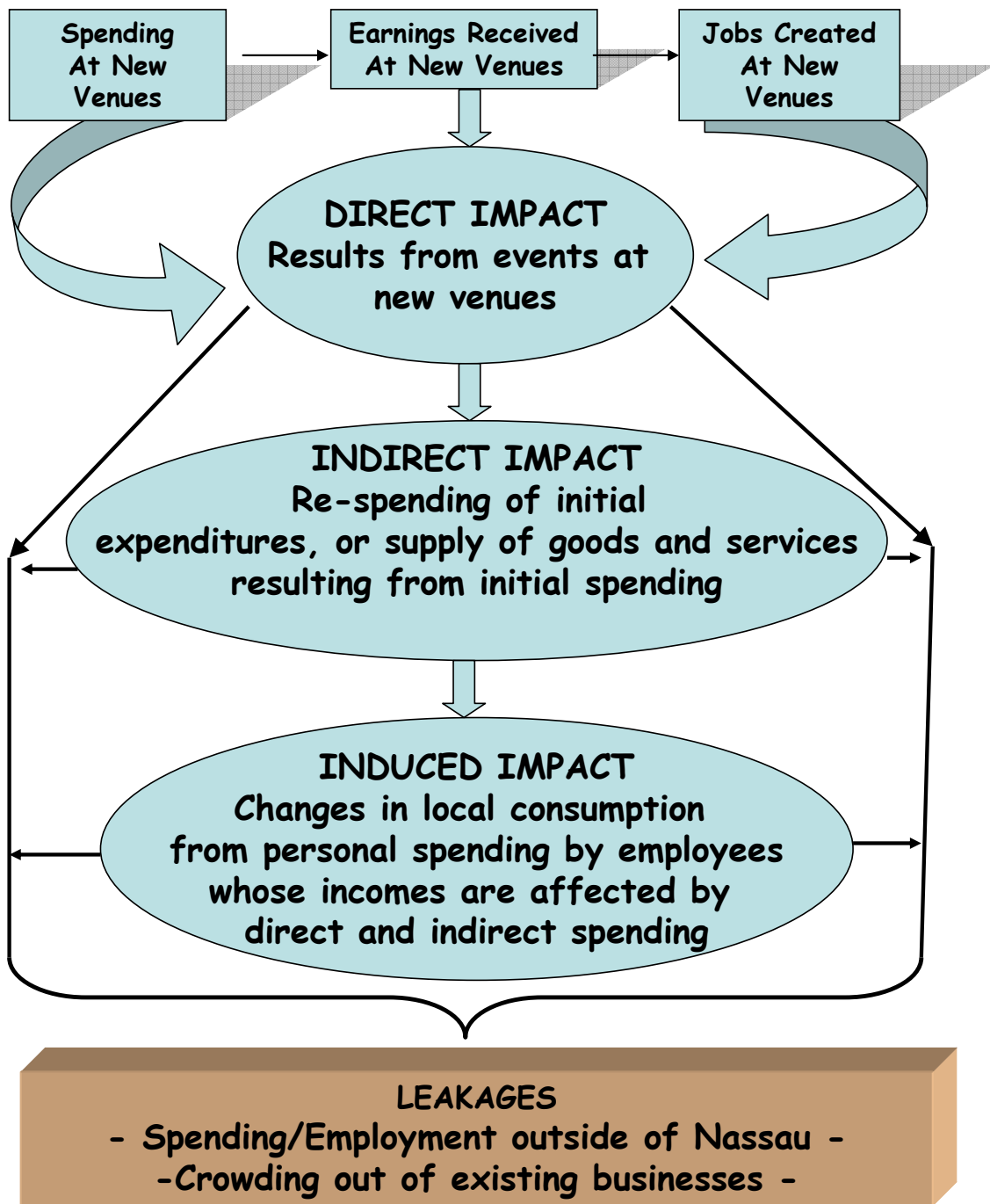
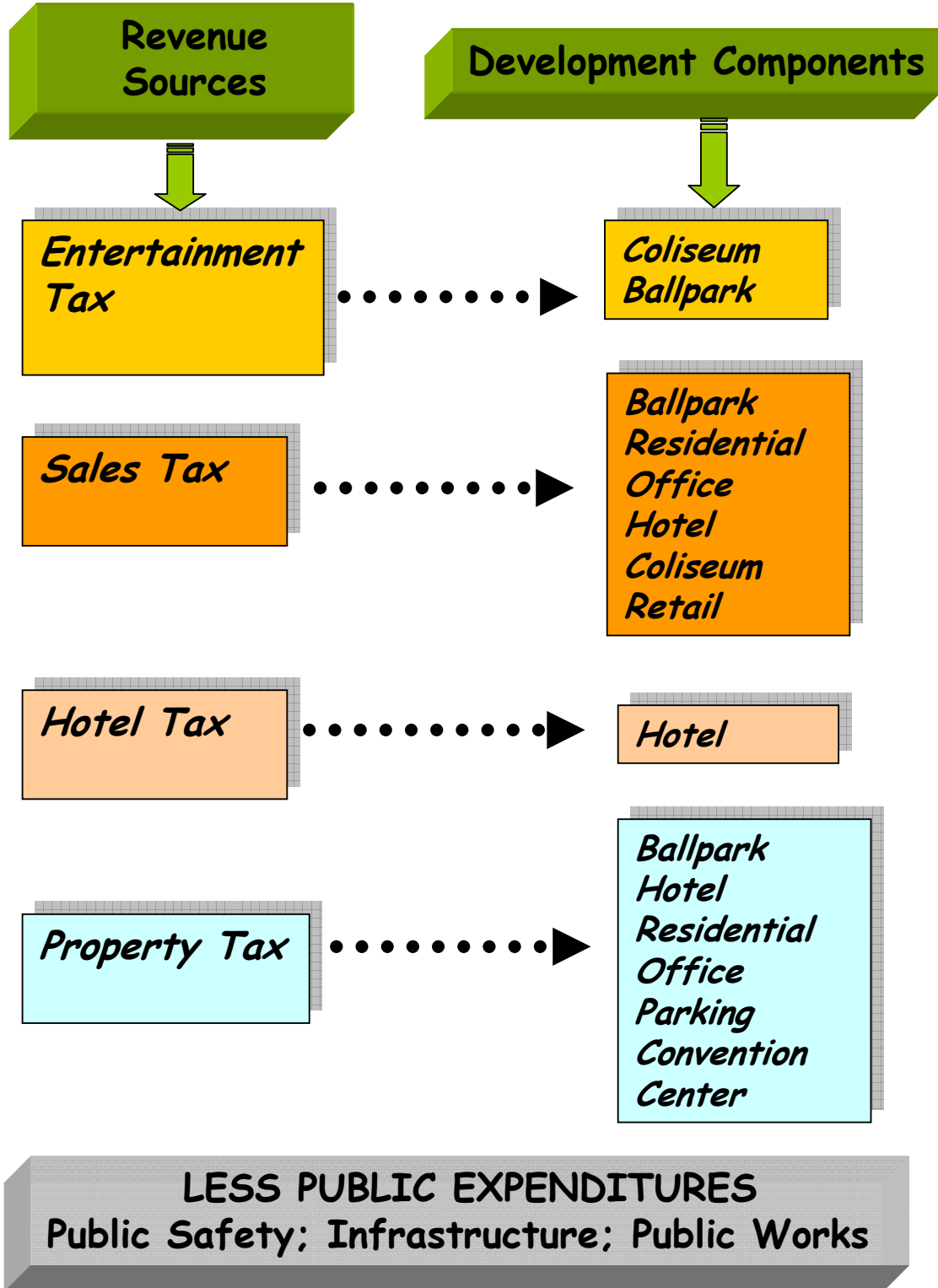


Exhibit II
Phase II: Economic Impact of Recurring Activities



**Exhibit III:
Fiscal Impact to Nassau County from Proposed
Development**



A. Definitions

For the purpose of this analysis, impact totals are discussed in terms of the Nassau County economy. The levels of impacts are described as follows:

- **Direct impacts** - are an expression of the spending that occurs as a direct result of the events and activities that occur in the proposed redevelopment area. For example, users' expenditures on hotel rooms and meals are a direct economic impact. Included within the analysis are spending within the redeveloped area itself, as these also direct impacts.
- **Indirect impacts** - consist of re-spending of the initial or direct expenditures, or, the supply of goods and services resulting from the initial direct spending in these facilities. For example, an attendee's direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that are within the local, regional, or state economies is counted as an indirect economic impact.
- **Induced impacts** – represent changes in local consumption due to the personal spending by employees whose incomes are affected by direct and indirect spending. For example, a waiter at the restaurant may have more personal income as a result of the attendee's visit. The amount of the increased income the waiter spends in the local economy is considered an induced impact.
- **Personal income** – measures increased employee and worker compensation related to the events being analyzed. This figure represents increased payroll expenditures, including benefits paid to workers locally. It also expresses how the employees of local businesses share in the increased outputs.
- **Employment impact** – measures the number of jobs supported in the study area related to the spending generated as a result of the activity occurring in the redeveloped area. Employment impact is stated as a number of full-time equivalent jobs.

This analysis differentiates spending impacts by people coming from out-of-town and by local residents, as defined below:

- **Net New Spending** - is spending by out-of-town attendees, participants, exhibitors, and other visitors who come from outside the subject area (Nassau County) which represents the amount of “new dollars” that flow into the respective economies.
- **Transfer Spending** – in strict economic terms, spending by those who live in the market area represents “transfer” spending. For example, a resident of Nassau County who uses a venue within the redeveloped site would transfer income from one sector of the County's economy to another, and therefore is not bringing new dollars into the County economy. We have eliminated from this analysis any transfer spending. We have only concerned ourselves with net new.

VI. Findings

We have analyzed the potential benefits to the County in terms of both economic impact and fiscal impact analysis. The economic impact provides the economic benefits that would not have occurred in the absence of the Coliseum's redevelopment and surrounding area development. The categories of economic impact for our purposes include net new:

- Retail sales
- Hotel room nights
- Events
- Spending
- Personal income
- Employment

The fiscal analysis projects the financial value to the County for all County revenue streams and all new County expenses that may be attributed to the redevelopment plan in terms of the incremental present value and cash flow. Such items include:

- Sales tax
- Hotel/motel tax
- Entertainment surcharge
- Property taxes
- Rent/Lease
- Sale proceeds
- General County expenses
- Public Infrastructure

The various development teams had different ideas for the redevelopment of the Coliseum which impact the relationships with both the Islanders and SMG. Lighthouse Development, as owner of the Islanders franchise, offers the most security in terms of retaining the team for a longest period of time. The Coliseum Redevelopment Corporation (CRC) proposal offered the Islanders use of the facility rent free and a guarantee to replace the team if it should leave. However, it is not specified whether this new team would be a Major League Hockey franchise or a minor league team. A new minor league baseball team is a part of this proposal as well. The Coliseum is not a realistic component of either Engel Burman-Kabro (EBK) proposal. In addition, while CRC is not opposed to continuing a relationship with SMG, Lighthouse would like to rid the building of the facility manager by either negotiation or condemnation.

Prices for renovating the Coliseum range from \$150 million to \$320 million. Specifically, Polimeni-Cordish proposed a \$150 million renovation (but also provides that the County could proceed without the Coliseum site), CRC proposed a \$200 million renovation and a \$100 million investment in structured parking, and Lighthouse Development proposed up to a \$320 million renovation and structured parking. Additionally, Charles Wang will personally guarantee a lien-free completion pursuant to the lease agreement. EBK does not plan on renovating the Coliseum.

The submittals included a variety of development notions. Each development team proposed retail/entertainment space, office space, residential space, and parking. The most radical was the Polimeni-Cordish proposal that would provide an inexpensive renovation of the facility, but also construct offices and place most County functions onsite, allowing for the sale of 28 acres of existing County land and buildings. The range of retail/entertainment space varies from 100,000 square feet to one million square feet, the office space component ranges from no space at all (Engel Burman-Kabro 1) to two million square feet, the residential units range in total size from 650,000 square feet to three million square feet, and parking spaces range from 9,600 spaces to more than 17,800 spaces.

The differences in the common land uses separate the development teams. Only the Lighthouse Development Group (Lighthouse) and the Coliseum Redevelopment Corporation (CRC) proposed to include additional hotel and meeting space in their plans. In addition, only these two developers have actively presented plans for the renovation of the Nassau Coliseum, with CRC discussing the option to build an entirely new venue.

A. Lighthouse Development

The Lighthouse submittal by Charles B. Wang and Reckson Operating Partnership, L.P. is very compelling due to the variety, proposed execution, and programming of the mix of uses. The Lighthouse proposal contemplates an innovative Sports Technology Center that, as an incubator for new businesses, could provide much higher benefits to the County than would a “normal” office component. The proposal as a whole is unique because Mr. Wang presently owns the primary tenant of the Coliseum, the New York Islanders NHL Team. Ultimately, if he is not the chosen developer, it is likely he would move his team to another location where the local government would provide assistance in the construction of a new, state-of-the-art arena for the team. Losing a primary tenant presents a situation that exacerbates the financial peril of the Coliseum and presents negative economic and fiscal impacts for the County.

B. Coliseum Redevelopment Corp.

The Coliseum Redevelopment Corp. is made up of Sterling Equities, the New York Mets Development Corp., and Blumenfeld Development Group. The proposal maximizes the uses on the site and the development density in a similar fashion to the Lighthouse proposal. The critical difference is that CRC does not own the Islanders. The CRC group understands the economics of sports team ownership and is realistic in their Coliseum revenue proposal in that the tenant (Islanders) should receive all the associated benefits.

C. Engel Burman-Kabro #1 and #2

The Engel Burman-Kabro (EBK) group proposed two scenarios. Their proposals are different in that neither solves the Coliseum challenge for the County, which was the basis of the RFP. In the first scenario, EBK would lease the entire 77 acres, divided into two parcels. The first parcel would be for the south 40 acres and would be earmarked for residential and retail development. This parcel would be leased at \$2.4 million per year (flat rate). The second parcel of 37 acres would be leased at an annual rate of \$3.0 million (flat rate), subject to termination of the SMG lease. EBK would then demolish the Coliseum and erect two million square feet of offices. This plan obviously does not

retain the Islanders on the site (or likely the County). The second plan is similar to the first, but allows for the Coliseum to remain as another entity's responsibility. EBK would still lease the south 40 acres for \$2.4 million annually (and develop residential and retail), but would leave the remaining 37 acres for this other entity to renovate, develop, etc.

If the County were resigned to losing the team and the viability of the building, these may be acceptable proposals. But considering the entire RFP process was predicated on the renovation of the Coliseum (or a new building), the EBK proposals fall short. Even their significant lease amounts do not come close to making up for the lost revenue from losing the team and the associated taxes.

D. Polimeni-Cordish

The Polimeni-Cordish (Polimeni) proposal represents the greatest departure from the expected mixed-use proposal. It envisions the subject site as the location for the County's operations and has proposed that Polimeni take ownership of the entire 77-acre site. Polimeni suggests that they could either include the Coliseum renovation or not. We have assumed the renovation occurs. With only \$150 million budgeted for the renovation and parking for the building, it is unlikely that this level of renovation will bring the facility up to state-of-the-art condition. The proposal suggests (and the Consulting Team agrees) that the existing County offices would be vacated and the land and building sold to the private sector for development. The County has provided a list of land and buildings that could be sold totaling 712,416 square feet. At \$150 per square foot (land footprint), the sale will bring approximately \$160 million to the County. It is assumed that the same amount of space will be redeveloped. We have also assumed that 70 percent of the redevelopment square footage will go to residential, 20 percent to commercial office space, and ten percent to retail.

Moreover, the proposal suggests that the Islanders would have to turn over certain "profits" to them as the new owner. They cite realistic profit as their intent. The proposal indicates that Cordish could manage the facility or the owner would extend the SMG contract. Combined, these items reflect a situation that would send the team to another city or venue when their lease ends in 2015 for the following reasons. First, the renovation of the facility will require more than \$150 million if it is to remain viable to generate revenue for an NHL franchise beyond 2015. Without these improvements, new revenue for team stability is likely to be lacking. Second, the new owners would want a share of profit. Even if the building were renovated (or newly built), the team would require all profit in order to stay competitive for the next 30 years. Finally, the SMG contract has been a net profit reducer for the building and will continue to be so. Extending this, unless completely renegotiated, is not likely to benefit the new owners or the Islanders. Alternately, if SMG does not retain management, then Cordish would be put in as the manager. Cordish, while brilliant at entertainment/retail/restaurant districts, has never fully managed a major league facility. With all of these combined issues, the Consulting team has little confidence in the future of the Coliseum or the Islanders in Nassau County under this scenario. As such, their model reflects that the team vacates the building (and County) after the 2015 season.

The concept of a new County seat of government on the site is a good one. It provides a ready audience of thousands for the other development components on the Coliseum site and gives the County a centralized, state-of-the-art complex. The sale of prime real estate by the County will net it approximately \$160 million and in turn cause impact-producing new development. Ultimately,

Preliminary Review of Coliseum Development Proposals

however, this is a major decision for the County, not the Consulting Team. Other factors beyond real estate and finance will be in play.

The downside of this proposal, from an economic and development perspective, is the treatment of the Coliseum. We are not convinced that the proposal for the Coliseum renovation is a realistic one and if implemented, we would expect the team to vacate the premises and the County in 2015. This would lead to a negative economic and fiscal impact as millions of dollars in taxes and consumer spending would be lost.

VII. Summary of Results

Table 3 shows the impacts for 2009 through 2025, in net present value. A discount rate of six percent was used, which is the opportunity cost of funds for the County.

Table 3

Summary of Development Proposals' Net Present Value Impacts on Nassau County 2009 Through 2025					
	Coliseum Redev.				
	Lighthouse-Wang	Corp.-Sterling- BDG-Mets	Engel Burman Kabro #1	Engel Burman Kabro #2	Polimeni - Cordish
Spending					
Direct	\$2,671,032,000	\$3,080,331,000	\$144,984,000	\$225,542,000	\$2,223,141,000
Indirect	891,300,000	1,027,900,000	48,400,000	75,300,000	741,900,000
Induced	378,800,000	436,800,000	20,600,000	32,000,000	315,300,000
Total Spending	\$3,941,132,000	\$4,545,031,000	\$213,984,000	\$332,842,000	\$3,280,341,000
Earnings					
Direct	\$997,900,000	\$1,150,800,000	\$54,200,000	\$84,300,000	\$830,600,000
Indirect	294,800,000	340,000,000	16,000,000	24,900,000	245,400,000
Induced	352,600,000	406,700,000	19,100,000	29,800,000	293,500,000
Total Earnings	\$1,645,300,000	\$1,897,500,000	\$89,300,000	\$139,000,000	\$1,369,500,000
Employment (FTE Job Years)					
Direct	35,992	41,507	1,954	3,039	29,957
Indirect	6,611	7,624	359	558	5,502
Induced	10,484	12,090	569	885	8,726
Total Job Years	53,087	61,222	2,882	4,483	44,185
Total Construction Jobs	13,964	15,144	6,071	3,460	12,469
Total Recurring Jobs	39,122	46,078	(3189)	1,022	31,716
Constant Average Recurring Jobs	2,301	2,710	(188)	60	1,866
Fiscal Impacts					
Sales Tax	\$78,737,000	\$92,735,000	(\$6,419,000)	\$2,057,000	\$63,831,000
Entertainment Tax	6,480,000	10,172,000	(9,477,000)	(3,715,000)	1,637,000
Property Tax	114,243,000	101,828,000	37,736,000	33,019,000	73,860,000
Hotel/Motel Tax	3,531,035	2,354,024	-	-	-
Lease Payments	19,394,000	19,394,000	35,488,000	7,145,000	-
Direct Proceeds	-	-	-	-	160,802,000
Less Public Costs	(24,686,000)	(23,930,000)	(11,323,000)	(7,940,000)	(17,712,000)
Total Direct	\$197,699,035	\$202,553,024	\$46,005,000	\$30,566,000	\$282,418,000

Source: Johnson Consulting

Total net new spending ranges from \$214 million for the EBK#1 scenario to \$4.5 billion for the Sterling-BDG-Mets (CRC) scenario. Earnings and employment follow a similar pattern, with both

Preliminary Review of Coliseum Development Proposals

EBK proposals generating less than \$140 million in earnings and less than 4,500 job years. By contrast, the remaining scenarios are estimated to generate from \$1.4 to \$1.9 billion in earnings and from 44,000 to over 61,000 job years. Fiscal impacts vary greatly, based on dozens of assumptions. Total direct fiscal impact ranges from \$31 million in EBK#2 to \$282 million for the Polimeni-Cordish (PC) proposal. This is primarily due to the assumed \$160 million sale of existing County land and buildings. For the EBK proposals, it should be noted that there are negative fiscal and spending impacts from the Islanders assumed vacating of the Coliseum in 2016. We also assume the Islanders leave in 2016 in the Polimeni proposal.

Table 4 shows the impacts for 2009 through 2107, or 99 years.

Table 4

Summary of Development Proposals' Net Present Value Impacts on Nassau County 2009 Through 2107					
	Lighthouse-Wang	Coliseum Redev. Corp.-Sterling- BDG-Mets	Engel Burman Kabro #1	Engel Burman Kabro #2	Polimeni - Cordish
Spending					
Direct	\$8,595,753,000	\$11,938,664,000	\$134,908,000	\$288,749,000	\$5,633,227,000
Indirect	2,868,400,000	3,983,900,000	45,000,000	96,400,000	1,879,800,000
Induced	1,218,900,000	1,693,000,000	19,100,000	41,000,000	798,800,000
Total Spending	\$12,683,053,000	\$17,615,564,000	\$199,008,000	\$426,149,000	\$8,311,827,000
Earnings					
Direct	\$3,211,500,000	\$4,460,400,000	\$50,400,000	\$107,900,000	\$2,104,600,000
Indirect	948,800,000	1,317,800,000	14,900,000	31,900,000	621,800,000
Induced	1,134,800,000	1,576,100,000	17,800,000	38,100,000	743,700,000
Total Earnings	\$5,295,100,000	\$7,354,300,000	\$83,100,000	\$177,900,000	\$3,470,100,000
Employment (FTE Job Years)					
Direct	115,828	160,873	1,818	3,891	75,908
Indirect	21,274	29,548	334	715	13,942
Induced	33,738	46,859	530	1,133	22,110
Total Job Years	170,841	237,281	2,681	5,739	111,960
Total Construction Jobs	25,865	30,234	8,060	5,553	20,668
Total Recurring Jobs	144,975	207,048	(5378)	186	91,292
Constant Average Recurring Jobs	1,464	2,091	(54)	2	922
Fiscal Impacts					
Sales Tax	\$310,010,000	\$442,743,000	(\$11,501,000)	\$397,000	\$195,216,000
Entertainment Tax	10,255,000	16,867,000	(21,360,000)	(8,373,000)	(659,000)
Property Tax	499,620,000	430,366,000	228,614,000	122,573,000	314,923,000
Hotel/Motel Tax	10,990,453	7,326,968	-	-	-
Lease Payments	47,170,000	47,170,000	119,230,000	44,364,000	-
Direct Proceeds	-	-	-	-	160,802,000
Less Public Costs	(55,739,000)	(51,768,000)	(21,747,000)	(17,877,000)	(29,616,000)
Total Direct	\$822,306,453	\$892,704,968	\$293,236,000	\$141,084,000	\$640,666,000

Source: Johnson Consulting

Total net new spending to the County ranges from \$199 million for the EBK#1 scenario to \$17.6 billion for the CRC scenario. Earnings and employment follow a similar pattern, with both EBK proposals generating less than \$178 million in earnings and under 5,800 job years. By contrast, the remaining scenarios are estimated to generate from \$3.5 to \$7.4 billion in earnings and from 112,000 to 237,000 job years. In total, direct fiscal impact ranges from \$141 million in EBK2 to \$893 billion for the CRC proposal.

A. Baseball

The CRC proposal was the only development proposal received which included a minor league baseball stadium. In the best and final offers received subsequent to the original proposals, the Lighthouse Group added a minor league baseball stadium to its proposal. Using the impact figures generated by the CRC proposal, the economic and fiscal impact of a baseball stadium was isolated. The analysis detailed below, Table 5, assumes a baseball stadium with 6,000 seats, an average attendance of 4,500 per game, 70 annual games played, \$23 per capita average spending per game and 75% of the projected spending is net new to the County.

Table 5

Baseball Stadium Impact on Nassau County, New York 2009 through 2025	
	Economic Impact
Spending	
Direct	71,514,000
Indirect	23,900,000
Induced	10,200,000
Total Spending	105,614,000
Earnings	
Direct	26,700,000
Indirect	7,900,000
Induced	9,500,000
Total Earnings	44,100,000
Employment (FTE Job Years)	
Direct	964
Indirect	177
Induced	281
Total Job Years	1,421
Total Construction Jobs	422
Total Recurring Jobs	1,000
Constant Average Recurring	59
Fiscal Impacts	
Sales Tax	2,138,000
Entertainment Tax	3,692,000
Property Tax	1,039,000
Lease Payments	0
Direct Proceeds	0
Less Public Costs	(939,000)
Total Direct	5,930,000
Source: C.H. Johnson Consulting	

The County plans to issue an RFP for the construction of a minor league baseball stadium.

B. Property Tax

Each of the projects would utilize County-owned land that is currently exempt from property taxes, and add significant new taxable assessed valuation to the rolls. It has been assumed that the residential components will be categorized as Class II: properties, which include apartment buildings, residential cooperatives and residential condominiums of four stories or more. The retail, office, hotel, baseball stadium, and convention components will be assessed as Class IV, and would benefit from the business tax exemption for ten years (a 50% reduction in year one, decreasing by 5% in each successive year).

In determining a dollar amount for the new property tax revenues that would result from each proposal, it was assumed that the entire amount of taxable assessed value added by the development of the site would be used to proportionately increase the County levy, rather than to keep the levy constant and reduce the rates. This Administration has referred to this process as “capturing the value of new construction.” In our analysis, the tax rates have been held constant.

The property tax estimates for the various proposals for years 2009 through 2025 range from \$33.0 million for Engel Burman Kabro #2 to \$101.8 million for CRC and \$114.2 million for Lighthouse.

VIII. Conclusion

A. Retail/Entertainment/Lifestyle.

This is an area where the County can truly begin to develop a sense of a ‘center’ or place, without competing with, or detracting from the nearby Roosevelt Field complex. Entertainment districts characterized with many restaurant options, nightclubs, coffee bars, as well as novelty and specialty retail are developing as the critical missing element in many downtowns. They are even less available in suburban office park settings, where the lights go out and lawn sprinklers come on at 6 p.m. These pedestrian-oriented developments, when carefully planned and executed, provide the glue between the ‘hard’ uses of office and residential by providing a place to be, socialize and spend money between work and home. An active street life of taverns, cafes, and live entertainment can be one positive result. Several such districts are or have been successfully developed across the U.S. They are often teamed with sports facilities (Pittsburgh, Kansas City, St. Louis, Brooklyn, etc.) to maximize economic synergies. Even suburban lifestyle centers (complete with a Main Street instead of an indoor mall) are now the primary retail/restaurant development style in the country. Pocket parks and other usable green space elements should be included. A highest and best use scenario would place a strong emphasis on creating a setting where residents and visitors want to live, shop, work and play.

B. Coliseum

The ownership of the Islanders believes that the team needs a new facility to survive financially. CSL, a consulting firm hired by the County, has estimated that during the last five years, the County has essentially broken even on the facility (aided by a lack of capital maintenance spending), SMG has enjoyed between a \$600,000 and \$2.5 million profit annually, and the team has lost between \$12

and \$27 million annually. If accurate, the model does not justify the team's existence without major changes. It is thought the improvements proposed, in addition to buying out the SMG agreement, will significantly improve the financial model for the Islanders and allow the County to keep the team with an improved facility at little to no cost. If Nassau does not provide the appropriate venue there are other municipalities that will. It is a real possibility, and a situation that must be taken very seriously by Nassau County. However, the threat of relocation by the Islanders is mitigated by the remaining term of the Coliseum Lease (through 2015) and the fact that any possible relocation sites may not have the ability to provide equal or better cable television revenues.

Both the Lighthouse and CRC proposed developments would provide a greater benefit to the County than the status quo over the projected time period. While the net positive impacts will be less if market conditions do not support the absorption schedules presented, redevelopment of the Coliseum alone will provide a net positive impact to the County and its residents.

Compared to a new facility, renovation of the Coliseum could prove to be less than optimum in design and inefficient, as construction would need to be phased around the Islanders' schedule, which would reduce the County's revenues and indirect economic activity. In addition, a new facility would have a longer life and compete more favorably with the other new arenas in the Tri-State area. Moreover, if a new Coliseum is built it may make sense to reduce the proposed annual payment of \$1.5 million. The lease payment savings and increased revenue in the building should come relatively close to making up for the added cost. The benefits of a renovated arena can be close to that of a new arena depending on the level of investment. However, the Lighthouse proposal does not make it clear how much will be spent directly on the renovation, apart from the ancillary parts such as the practice facility and parking. Also, the lease term with the Islanders should correspond to the useful life of a new arena.

In the absence of a more detailed scope of renovation work, reference could be made in the eventual lease to comparable arenas elsewhere, with County approval to be obtained later. It is critical that the County contracts with a sports architect to ensure a state-of-the-art arena. In addition, our consultants have suggested that the County should negotiate for a share of any possible net re-sale proceeds if the future proposed lease includes a purchase option. Long term public sector ground leases often feature profit participation provisions in favor of the public sector. These provisions can include percentage shares of net or gross incomes (the latter formula is easier to monitor, but does not fully address profitability for the private investors) and/or percentage shares of profit on sale or refinancing of the improvements on the property.