



NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

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

From: ^{SA} Steve Antonio
Legislative Budget Review

Date: July 15, 2011

Re: Nassau Coliseum Lease Agreement

Attached please find a copy of OLBR's analysis of the proposed lease agreement between Nassau County and Arenaco SPE LLC, in relation to the construction of a new arena to replace the Nassau Veteran's Memorial Coliseum.

This report seeks to analyze the proposed agreement between the County of Nassau, Landlord and Arenaco SPE LLC, Tenant in relation to the construction of a new arena to replace the Nassau Veterans Memorial Coliseum. The proposed lease has not been executed yet and may be subject to revisions.

The report attempts to extract the direct fiscal impact to Nassau County from on-site Coliseum operations utilizing the assumptions made in the Islanders', Camoin Associates and CS&L's reports. Not included in the analysis are any revenues or costs associated with constructing a baseball stadium or other projects in the Hub area.

Lease Summary

The proposed lease is between Nassau County, (Landlord), and Arenaco, (Tenant). The term of the lease is thirty years. A separate agreement referred to as the Islanders' Pledge Agreement will be signed between Arenaco and the Islanders Ownership Entity, in which the Islanders' agree to pay to Landlord all sums due from the Islanders' Ownership Entity to Arenaco, as sublandlord under the sublease.

The County is leasing Arenaco the entire coliseum property. According to the administration, this was necessary to be in compliance with the Town of Hempstead's parking zoning law. This implies that the winner of any RFP to develop the land adjacent would need to sign a separate agreement regarding parking with Arenaco. According to a representative of the Administration, Arenaco is not being given any development rights and that the lease specifies that Arenaco must maintain the required parking:

Tenant agrees that it shall provide patrons of the Coliseum access and use, at market rates, of a minimum of Six Thousand Five Hundred (6,500) parking spaces on the Land, which parking spaces may be surface parking spaces, parking spaces located within building structures or any combination thereof (the "**Required Parking**"), during all events at the Coliseum

The lease then further specifies that Arenaco cooperate with any hub development.

Tenant shall cooperate, and shall cause the Islanders' Ownership Entity to cooperate, with the County and other parties involved in the development of other properties owned by the County in the "Hub" provided that such development will not materially and adversely affect the use and operation of the Coliseum or any other property located within the boundaries of the "Hub" owned by Tenant and/or any other entity under the Control of Tenant, Charles Wang and/or the Islanders.

According to the Administration, the only material and adverse impact would be the loss of parking. Hence, any winner of a development RFP would have to build or find additional parking prior to construction.

The County has agreed to hold a referendum to approve or disapprove of the bonding of up to \$400 million to build a new coliseum, minor league baseball stadium and other projects. If the

referendum is approved, Arenaco will cover the cost of the election. Arenaco has also agreed to pay up to \$250,000 in pre-issuance costs incurred by the County. The \$250,000 will be refunded to the Arenaco from the bond proceeds.

The lease states that the County shall issue \$350 million in bonds to fund the new arena project. Prior to the date of the issuance of the Bonds, the County and the Islander's Ownership Entity will execute a non-relocation agreement pursuant to which the Islander's Ownership Entity shall agree to play substantially all home games (including post-season home games) at the Coliseum for a period of thirty (30) years.

The County bonded monies will be used to demolish the existing structure and construct a new arena. The design of the new facility must be mutually acceptable to the County and Arenaco. The design is expected to be substantially similar to, but not identical to, the Prudential Center located in Newark, New Jersey, provided, however, that it is understood and agreed that (a) the Coliseum will not be exactly the same as the Prudential Center, and may have, for example, different types or numbers of amenities, suites, and/or seats, and (b) the Coliseum shall have a minimum of seventeen thousand (17,000) seats, and a minimum of fifty (50) suites, each of which shall be capable of accommodating a minimum of eight (8) patrons, and that are intended for the use as the Islander's home arena and the other Coliseum Uses. Additionally, the lease specifies that the new arena shall have 6,500 parking spaces. It is our understanding that there will no longer be a convention/exhibition space in the basement of the Coliseum.

Prior to the issuance of the bonds, the County may enter into project management agreements or construction contracts with a maximum aggregate cost of \$375 million. Any costs above \$350 million would be reimbursed to the County from Arenaco through an Equity Fund. The lease specifies that upon demand by the Landlord, the tenant shall deposit with the trustee cash or equity funds which the landlord may use to cover additional project costs. It should be noted that the Prudential Center, the design model for the proposed new arena, cost \$375 million to construct in 2007.¹

Arenaco is responsible for payment of annual rent once the new coliseum is open. The lease specifies the annual rental amount as an amount equal to the greater of (a) eleven and one-half percent (11.5%) of all Coliseum Revenues received for such Lease Year or (b) \$14,000,000 (the "**Minimum Annual Rent**"), less any credits to which Tenant is entitled pursuant to the terms of this Lease. The credits which Arenaco may deduct for are any capital repair costs above \$500,000 and any County real estate taxes.

In the event of the tenant filing for bankruptcy, the County would still be responsible for payment of the annual debt service costs. The tenant would be in default and the landlord could terminate the lease and seek recovery of damages. The damages would be defined as the value of the rental payments over the remaining lease term. If the tenant entity is bankrupt, collection of damages could be difficult. Additionally, in the event of bankruptcy the County could attempt

¹ www.prucenter.com

to offset its debt service costs by securing a new anchor tenant, selling the property, or filling the lost 41 home games with other events.

Arenaco is responsible for the condition, operation, maintenance, repair and management of the premises. The premises shall be maintained at tenant's cost in good repair and in a first class manner and condition.

The lease specifies that the County is responsible for covering the cost of any capital repairs valued at more than \$500,000. Capital repairs are Capital Improvements made to any structural component or to the mechanical, electrical, heating, ventilation, air conditioning, elevator, plumbing, sanitary, life-safety and related communications apparatus and other utility and service systems, which are necessary to maintain the safety and integrity of the facility.

Arenaco would pay the first \$500,000 cost of capital repairs and would then deduct any additional cost from their rental payment. The County has the right to approve or disapprove of any proposed capital repair so long as any denial is not seen as unreasonable, withheld, conditioned or delayed. Moreover, Arenaco is responsible for the entire cost if the capital repair is required due to their acts or omissions.

Lastly, Arenaco is expected to directly contract for gas, water, sewer, electricity, light, heat, power, steam, telephone, cable or other communications service and all other utility or service of every nature and kind used, rendered or supplied to, upon or in connection with the premises throughout the Lease Term.

Direct Fiscal Impact

Expenses

Depending on the outcome of the referendum, the County will either incur the cost of the referendum or the debt service costs associated with building the arena. Additionally, the County is responsible for capital costs above \$500,000.

The County has agreed to hold a referendum to approve or disapprove of issuing debt to finance projects at the Hub. The County will incur costs associated with holding a referendum, estimated to fall within a \$900,000 to \$2.2 million range. The lease states that if the referendum is approved, then the County will be reimbursed for its expenses.

Upon approval of the lease, the County has agreed to bond up to \$350 million to cover the project costs. According to the lease the project costs have been defined as:

all out-of-pocket (a) costs of demolition of any Existing Improvements to be demolished in accordance with the Coliseum Improvements Plans and Specifications, (b) costs of constructing the Coliseum Improvements in accordance with the terms of this Lease, (c) Project Cost Change Orders, (d) professional fees and other soft costs incurred by Landlord or Tenant in connection with the items specified in this Section 1.101, (e) costs of issuance of the Bonds, (f) Pre-Issuance

Costs, and (g) costs of any change order that does not constitute a Project Cost Change Order but which is approved by both Landlord and Tenant.

Upon approval of the referendum, the County can issue up to \$400 million in bond proceeds. Since more than 10% of the bond proceeds will be used for private purposes, the bond issuance will be taxable. This amount was previously estimated to equate to an average annual debt service cost of \$29.3 million. That analysis assumed the bonds are amortized over 30 years at an interest rate of 6.5%. However, the borrowing associated with the proposed lease, only binds the County with making a \$350 million bond issuance to cover the cost of a new coliseum. The average annual debt service cost for this project will be \$25,601,041.67. A property tax levy for that amount would result in a cost of \$51.50 for an average household.

Over the thirty years the County will pay back \$350 million in principle, \$418 million in interest expenses or \$768 million in total debt services costs.

No estimate was provided as to the 30 year cost of capital costs above \$500,000. It is believed that over the lease term there will be some capital repair costs which the County will have to cover. However, since no estimate was provided, no capital repair costs are included in the fiscal impacts detailed below.

General Fund Deficit

From 2007 to 2009, the Coliseum generated roughly \$3 million annually in revenue which was used to cover County operating expenses. If the lease was to hold the County harmless, then the anticipated revenues would need to cover both the new debt service costs as well as the \$3 million surplus that had been used to cover County expenses in the general fund.

Adding the \$3 million surplus to the Camoin Associates assumptions results in a net County deficit of \$5.6 million.

It should be noted that Islander's projected revenues exceed the estimated debt service costs by \$7.9 million. That covers \$3 million annual average surplus revenues generated by the Coliseum to the County from 2007 to 2009.

Revenues

If the referendum is approved the County will be reimbursed for its costs to hold the vote. Over the term of the lease, the County will receive revenue-sharing or rent payments as well as tax collections currently derived from taxable sales originating at a coliseum event.

The lease defines the following revenues to be subject to the 11.5% revenue sharing agreement:

In all cases revenues shall include, without limitation, ticket revenues and revenues from food, beverage, merchandise and other concessions, novelties, catering, suite licenses and fees, club seats, radio broadcast, sponsorship (including signage and other advertising), internet (website, Facebook, Twitter, and all other similar social

networking internet sites relating to the Coliseum), naming rights, publications, parking and personal seat licenses, but shall exclude all media revenue (other than radio broadcast) from television, cable, or the internet relating to Arenaco and other “new media,” and further excluding all revenue received from the NHL.

As mentioned previously, the County is responsible for all capital costs above \$500,000. Arenaco has the right to deduct these costs from their annual rental payments.

Pre-Issuance Costs

Arenaco has agreed to front the funds for pre-issuance costs. These are defined as all actual out-of-pocket third party costs and expenses incurred by Landlord, from and after the date of the Referendum to and including the date of issuance of the Bonds, in connection with the proposed Lease and the proposed development, construction and financing of the Coliseum Improvements and the performance of the work. The maximum amount which the Islanders’ will advance the County is \$250,000. These monies will then be refunded to the Islanders’ out of the bond proceeds.

Revenue – Sharing and Tax Collections

To ascertain the direct revenues derived from the proposed lease agreement and collected from on-site Coliseum operations, OLBR reviewed the Islanders’ projections, Camoin Associates report and CS&L’s report. These reports outline and analyze the estimated fiscal and economic impacts and assumptions utilized by Arenaco and discounted by both Camoin Associates and CS&L.

To test the reasonableness of the assumptions, the fiscal results were then compared to actual historical County collections derived from the Coliseum as well as the fiscal results obtained from other new hockey arenas.

Islander Assumptions

Table 1 details the event, attendance, ticket price and gross revenue assumptions used in the Islander’s fiscal projections. These assumptions are included in the Camoin Associates report.

Table 1

Islanders Projections for Ticket Sales				
Event Type	Event #	Annual		Gross Revenues
		Attendance	Ticket Price	
NY Islander Hockey Regular Season	41	491,180	\$64.00	\$31,435,520.00
NY Islander Hockey Luxury Suite	41	26,896	\$130.00	\$3,496,480.00
NY Islander Hockey Party Suite	41	10,824	\$55.00	\$595,320.00
NY Islander Hockey Club Seats	41	127,100	\$130.00	\$16,523,000.00
NY Islander Hockey Pre Season	2	25,000	\$64.00	\$1,600,000.00
NY Islander Hockey Playoff	6	102,000	\$108.00	\$11,016,000.00
Other Sporting Events	8	80,000	\$36.00	\$2,880,000.00
Family Shows	56	285,600	\$37.50	\$10,710,000.00
Concert Events	38	551,000	\$87.00	\$47,937,000.00
Entertainment	7	70,000	\$41.00	\$2,870,000.00
Annual Events	158	1,769,600	\$75.25	\$129,063,320.00

-bottom line ticket price is an average

According to the revenue sharing agreement, the County would receive 11.5% of the gross revenues attributable to ticket sales. Using the Islander’s assumptions for events, attendance and ticket price, yields an annual payment of \$14,842,282. The County will also collect sales tax payment on ticket sales of sporting events, excluding family shows, concert events and entertainment. Using a 4% sales tax rate to estimate the annual ticket sale, sales tax payments yields a payment of \$2,701,853. The current sales tax rate in Nassau County is 8.625%. Of that percentage, Nassau retains 4.25%. Nassau is then responsible for paying out 0.25% of the collections to the local towns and villages through the local government assistance program.

Table 2

Islanders Projected Gross Revenues		
	Total	11.50%
Ticket Sales	\$129,063,320.00	\$14,842,281.80
Onsite-Novelty Purchases	\$7,697,760.00	\$885,242.40
Onsite-Food Purchases	\$25,376,064.00	\$2,918,247.36
Onsite-Parking Revenue	\$14,074,000.00	\$1,618,510.00
Additional Revenues	\$52,227,591.00	\$6,006,172.97
Total	\$228,438,735.00	\$26,270,454.53

The County would also receive 11.5% of gross revenues attributable to on-site novelty, food and parking purchases. Using the Islander’s per person cost estimates and applying them to the Islander’s attendance figures results in the above detailed annual gross revenue and revenue sharing estimates. These estimates are shown in Table 2 above.

The final piece of the revenue sharing agreement applies to naming rights, advertising, sponsorship, radio, publications, catering and premium club seating revenues. These additional revenues are expected to result in gross revenues of \$52.2 million and annual revenue sharing

payments of \$6 million. When viewed together, Table 2 details estimated total gross revenues and the 11.5% revenue sharing annual payment to Nassau County.

In total, on an annual basis, the Islander’s estimate paying the County roughly \$26.3 million a year in shared revenues. However, if attendance or the events total is less than projected, Arenaco has guaranteed to pay the County \$14 million as a minimum revenue sharing amount.

When the previously detailed revenue sharing payments are added to the estimated entertainment tax and sales tax collections, it was found that Arenaco expects to cover 130.90% of the annualized debt service cost, \$25,601,041.67 per year. Table 3 details the projected annual revenues and compares them to the estimated annual debt service costs.

Table 3

Projected County Fiscal Impact, Islanders Assumptions	
	<u>Annual Revenues</u>
11.5% Revenue Sharing	\$26,270,454.53
Entertainment Tax Revenues	\$2,654,400.00
4% Sales Tax Ticket Revenues	\$2,701,852.80
4% Sales Tax On-Site Purchases	\$1,885,912.96
County Revenues from New Coliseum	\$33,512,620.29
Estimated Annual Debt Service Costs	\$25,601,041.67
% Debt Covered by Annual Revenues	130.90%

Camoin Assumptions

Camoin Associates reviewed the Islander’s projections, CS&L’s report and completed their own research. The assumptions used are based upon their comprehensive analysis. The resultant gross revenue projections, shown in Table 4, are based upon their discounted assumption for events, attendance and ticket prices.

Table 4

Camoin Projections for Ticket Sales				
Event Type	Event #	Annual Attendance	Ticket Price	Gross Revenues
NY Islander Hockey Regular Season	41	491,180	\$60.00	\$29,470,800.00
NY Islander Hockey Luxury Suite	41	26,896	\$130.00	\$3,496,480.00
NY Islander Hockey Party Suite	41	10,824	\$55.00	\$595,320.00
NY Islander Hockey Club Seats	41	71,750	\$130.00	\$9,327,500.00
NY Islander Hockey Pre Season	2	25,000	\$60.00	\$1,500,000.00
Other Sporting Events	6	60,000	\$27.00	\$1,620,000.00
Family Shows	42	214,200	\$28.13	\$6,025,446.00
Concert Events	29	413,250	\$65.25	\$26,964,562.50
Entertainment	5	52,500	\$30.75	\$1,614,375.00
Annual Events	125	1,365,600	\$65.13	\$80,614,483.50

Table 4 shows that Camoin discounted all variables, the event number, attendance number and ticket price. Camoin did not include any playoff games. These decreased inputs resulted in lower on-site purchase revenues.

The lease states that the County will collect 11.5% of gross revenues attributable to on-site food, novelty, parking and additional revenues. Camoin’s estimates of these revenues are lower due to their decreased attendance figure, lower parking charge and reduced club seat premiums. Table 5 details all Camoin gross revenue estimates to which the County will collect an 11.5% annual revenue sharing payment.

Included in the additional revenues line are revenues attributable to naming rights, advertising, sponsorship, radio, publications and premium club seating revenues. These revenues are expected to generate \$42 million in gross revenues and \$4.8 million in annual revenue sharing payments.

Table 5 details the estimated total gross revenues and the 11.5% revenue sharing annual payment to Nassau County.

Table 5

Camoin Projected Gross Revenues		
	Total	11.50%
Ticket Sales	\$80,614,483.50	\$9,270,665.60
Onsite-Novelty Purchases	\$7,606,392.00	\$874,735.08
Onsite-Food Purchases	\$17,875,704.00	\$2,055,705.96
Onsite-Parking Revenue	\$6,551,680.00	\$753,443.20
Additional Revenues	\$42,002,620.00	\$4,830,301.30
Total	\$154,650,879.50	\$17,784,851.14

In total, on an annual basis, Camoin Associates estimate that the Islanders will pay the County roughly \$17.8 million a year in shared revenues. However, if attendance or the events total declines, the Arenaco have guaranteed to pay the County \$14 million as a minimum revenue sharing amount.

Table 6 details the projected Camoin Associates annual revenues and compares them to the estimated annual debt service costs.

Table 6

Projected County Fiscal Impact, Camoin Assumptions	
	<u>Annual Revenues</u>
11.5% Revenue Sharing	\$17,784,851.14
Entertainment Tax Revenues	\$2,048,400.00
4% Sales Tax Ticket Revenues	\$1,840,404.00
4% Sales Tax On-site Purchases & Parking	\$1,281,351.04
County Revenues from New Coliseum	\$22,955,006.18
Estimated Annual Debt Service Costs	\$25,601,041.67
% Debt Covered by Annual Revenues	89.66%

These figures show that using Camoin Associates' lower assumptions, the estimated direct on-site fiscal collections would cover 89.66% of the County's total annual debt service costs. This leaves the County with a deficit of \$2,646,035.

It should be noted that these figures only account for the direct revenues that will be derived from the operation of the arena. In Camoin's report, a thirty year revenue and expense projection was completed. Attendance figures were held constant throughout the thirty years while the ticket prices were increased 3% a year to account for inflation. They further added in some off-site revenues and indirect economic benefits to arrive at a positive net present value to the County of \$2.22 million in excess of County debt service costs.

Additional Revenues

It should be noted that 27% of Camoin gross revenues and 23% of Islanders projected revenues are a function of seven additional revenue categories, catering, executive suite fees, club seat premiums, sponsorships and advertising, naming rights, publications and radio revenues. OLBR has no way of assessing the reasonableness of these revenue sources.

As a worst case scenario, if none of these revenues are collected, in the Islanders scenario, 107.4% of the County's debt service costs would be covered. Under the Camoin scenario, the County would receive the \$14 million guaranteed minimum and 70.80% of the County's debt service costs would be covered.

Additional Risks and Opportunities

Estimated Attendance Figures

The revenue projections produced by the Islanders and Camoin, assume a significant increase in attendance at the new arena. Based on historical ticket tax collections received by the County we have extrapolated and estimated attendance from 2003 through 2010.

Table 7

	Entertainment Tax Collections	Estimated Attendance
2010	1,284,524	856,349
2009	1,713,719	1,142,479
2008	1,569,752	1,046,501
2007	1,818,603	1,212,402
2006	1,685,182	1,123,454
2005	1,052,616	701,744
2004	1,249,023	832,682
2003	1,926,933	1,284,622
Average	1,537,544	1,025,029

Using the eight year average attendance figure as a basis of comparison, reveals that Camoin's projected annual attendance of 1,365,600 represents a 33.2% increase from the historical average.

Computing the same calculation using the Islander's 1,769,600 projected attendance figure, reveals that Islander's projected annual attendance represents a 72.6% increase from the historical average.

Historic Novelty Effect

Many experts have found that a novelty effect exists, whereby modern stadiums and arenas become destination attractions which produce increases in attendance for periods as long as 8 to 11 years. Some have found that the length and significance varies by sport. In certain situations attendance actually declined during the opening year.²

To gauge what an appropriate attendance increase for a new hockey arena would be, OLBR used statistics detailed in Dennis R. Howard and John L. Crompton's article entitled, "An Empirical Review of the Stadium Novelty Effect", Sport Marketing Quarterly, Volume 12, Number 2, 2003. They compiled annual attendance levels for professional hockey teams during the year before they moved to a new stadium as well as 1, 3 and 5 years after entering a new facility. Their results are shown in Table 8.

² Howard, Dennis R., and John L. Crompton, "An Empirical Review of the Stadium Novelty Effect", Sport Marketing Quarterly, Volume 12, Number 2, 2003.

Table 8

Estimate of Novelty Impact 1995-2002			
Attendance Change in New Hockey Arenas			
	1st Yr. %	3rd Yr. %	5th Yr. %
Colorado Avalanche	12.2%	12.2%	NA
Florida Panthers	30.4%	-2.0%	NA
Los Angeles Kings	29.2%	31.1%	NA
Montreal Canadiens	14.8%	13.3%	9.8%
Ottawa Senators	8.6%	13.9%	10.1%
Philadelphia Flyers	11.3%	13.1%	12.8%
Washington Caps	16.8%	5.0%	NA
Average	17.6%	12.4%	10.9%

Taking an average of the 1 year, 3 year, and 5 year figures results in a 13.6% average increase. Hence, a 33.4% or 72.8% increase in attendance may be difficult to achieve.

Based on information received from an Islander representative, projected increase in attendance in not only a function of a novelty impact, but also of the team's ability to attract better players with a new arena. They opined that with better players, the teams winning percentage would increase and arena attendance would also increase. In addition, an updated arena will be able to book more events.

Off-Site Revenues

Building a new coliseum will generate off-site revenues as well. However, quantifying these revenues involves many assumptions.

Determining what sales to credit the coliseum with requires a determination on where each customer is originating from since there are several businesses close by. Moreover a reduction must be made to other business's sales volume since when a family chooses to go to the Coliseum, they are choosing not to go to another venue.

To account for these impacts economists generally attempt to calculate gross revenues and then discount them by a net new or cannibalism percentage.

The degree of cannibalism can be greater depending on the design of the new coliseum. If the new coliseum includes more bars, restaurants and shops, then local businesses will compete with the coliseum and lose sales. This impact was found to occur at the new Yankee Stadium. Merchants around Yankee stadium state that their fiscal results have fallen well short of what they had hoped for. They thought that the new stadium would make life better for them and it did not.³

The matter is more complex since Nassau County sales tax collections are not detailed by venue.

³ Mokha, Kavita, "New Stadium Foul Out with Merchants", [The Wall Street Journal.com](http://www.wsj.com), July 1, 2011.

Camoin Associates did research to determine that 15% of estimated arena attendees could be expected to stay overnight. Using their attendance figures and an average cost per visitor of \$44.75 yields \$254,776 in annual County Hotel Motel Collections.

Using 2008 to 2010 County Hotel Motel tax collections, it was determined that that figure represents roughly 6.4% of annual hotel motel tax collections. It was then confirmed with the Long Island Convention and Visitor’s Bureau that this percentage seemed reasonable.

Economic Benefits

Bonding \$350 million will support indirect economic benefits. These short-term benefits may be measured with the use of an economic input-output model. OLBR used U.S. Bureau of Economic Analysis RIMS II multipliers to quantify these benefits. The results of this model are shown in Table 9.

Table 9

Economic Impact of \$350 million bond issue, Construction Spending			
Output and Earnings Figures in Millions			
Industry	Increased Output	Increased Earnings	New Employment
Agriculture, forestry, fishing, and hunting	245,000	17,500	1
Mining	0	0	0
Utilities	2,152,500	157,500	1
Construction	175,787,500	39,585,000	883
Manufacturing	11,795,000	1,592,500	31
Wholesale trade	9,275,000	1,855,000	30
Retail trade	17,990,000	3,832,500	154
Transportation and warehousing	3,010,000	700,000	17
Information	7,560,000	647,500	10
Finance and insurance	10,535,000	1,750,000	24
Real estate and rental and leasing	14,700,000	875,000	34
Professional, scientific, and technical services	9,852,500	2,835,000	44
Management of companies and enterprises	1,557,500	140,000	1
Administrative and waste management services	4,742,500	1,155,000	41
Educational services	1,067,500	332,500	12
Health care and social assistance	9,012,500	2,817,500	69
Arts, entertainment, and recreation	1,015,000	297,500	14
Accommodation and food services	3,185,000	595,000	36
Other services	3,850,000	875,000	31
Labor earnings	0	35,000	3
Total	\$287,332,500	\$60,095,000	1,438

Sources: RIMS II Multipliers, US Bureau of Economic Analysis,

It was found that introducing these funds in the economy will generate 1,438 jobs, \$60,095,000 in earnings and \$287,332,500 in output. Assuming that 70% of the earnings are spent on taxable items in Nassau County, results in increased County sales tax collections of \$1,682,660.

OLBR did not attempt to quantify any off-site jobs/economic benefit generated in the long-term by the Coliseum once it is up and running. Such benefits will accrue. However, standard economic input-output models were not devised to capture these benefits. That is, these models hold all else constant and allow one input to change so that the economic benefit of that input may be viewed. This works well with short term infusions of cash. However, over the long term there is a substitution effect where by price changes induce individuals to modify their behavior. Gordon, Park and Richardson write in their article entitled, “Modeling Input-Output Impacts with Substitution in the Household Sector: A Numerical Example”,

“The fixed-coefficients production function assumptions ignore substitutions in response to price changes – skipping over the heart and soul of market economics. The defense against this criticism is that the analysis is short-term with applications before agents have been able to discover the relevant substitution options.”⁴

What this implies is that over the long run, the same jobs which such models would credit the Coliseum with, would also be credited to say Hofstra University if their annual operating budget was used as an input in an input-output economic model.

Number of Events

In the Islander’s projections, they assume that a new arena will hold 158 events per year. Camoin Associates assume that the coliseum will hold 125 events per year.

The consultant hired by OLBR in 2006 to analyze the fiscal and economic impact of the Lighthouse project found that 197 events had been held there historically and that a new Coliseum could see that event total rise to 226. It should be noted that the economy was considerably stronger with more robust consumer buying trends in 2006 when the consultant’s assumptions were made.

OLBR therefore finds that both the Islanders and Camoin Associates event number assumptions are reasonable and may prove to be conservative.

Inflation

Since the County’s debt service costs are fixed for thirty years, over time, if ticket prices increase over time without reducing attendance, due to inflation revenue sharing payments and ticket sales tax collections will grow and cover a larger percentage of the County’s debt service payments.

Heightened Competition

It should be mentioned that by the time a new arena is opened in Nassau County, it will face additional competition from a new arena built in Brooklyn.

⁴ Gordon, Peter, JiYoung Park and Harry W. Richardson, “Modeling Input-Output Impacts with Substitution in the Household Sector: A Numerical Example”, Economic Modeling, Volume 26, Issue 3, May 2009, pages 696-701.

Conclusion

In order for the revenues received directly from the operations of the new arena to completely offset the debt service costs resulting from its construction, a significant increase in attendance, as compared to the current facility, must be achieved and then maintained. The interest generated by a new arena, with an improved Islanders team on the ice, as well as the possibility of adding more non-hockey events are factors that could raise admissions.

We believe that at a minimum the County can expect to receive the guaranteed \$14 million annual revenue sharing amount, plus an additional \$4.9 million from sales and ticket tax, as shown below:

Table 10

	<u>Minimum</u>
11.5% Revenue Sharing	\$14,000,000.00
Entertainment Tax Revenues	\$1,746,649.70
4% Sales Tax Ticket Revenues	\$1,594,520.75
4% Sales Tax On-site Purchases	\$1,550,319.93
County Revenues from New Coliseum	\$18,891,490.38
Estimated Annual Debt Service Costs	\$25,601,041.38
% Debt Covered by Annual Revenues	73.79%

In this scenario we assume that admissions will increase from their current levels by a novelty impact of 13.6%. The difference between the annual debt service expense of \$25.6 million and the arena revenues that will be received by the County equals \$6.7 million, or \$13.80 per Class 1 household.