

OK, maybe I can't say for certain why the NFL opted out of their current CBA. But what I can speak to is the problem with salary caps as they are structured in the NHL, NFL and NBA, so that sports fans can understand why the NFL is doing what it is doing and why it could and probably will happen in any league governed by a salary cap.

The basic structure of a salary cap is that the revenues of the league are aggregated into a total pool, call it football, basketball or hockey related income.

Every league is different in the specifics of which revenue is included. Generally its 100pct of national revenue, such as national TV and marketing deals and the net margin dollars of nationally sold merchandise at the top level. In addition to the national revenue, the collective bargaining agreements for each league specify which local revenues from each team are added to the pool as well.

The salary cap for the league is then calculated by multiplying a percentage of revenue specified by the collective bargaining agreement and then dividing that result by the number of teams. So if a hypothetical league has 2 billion in cap related revenue and the multiplier is 50pct , then you take (2 billion x 50pct ) and then divide by 20 teams to get a cap of 50mm dollars per team.

Its a simple concept. The idea behind having a cap is that when total revenues for the league go up, then the amount of money available to players should go up as well. Makes perfect sense for a hypothetical league where BOTH local and national revenues per team are consistently equal.

Unfortunately, in this day and age, while national revenues per teams are split equally, the amount of revenues generated locally per team varies enormously market by market. This is a huge problem for salary cap based leagues.

Why does this create a problem ? Because in the biggest of big markets, significant increases in revenues can increase the value of the salary cap by more dollars than some other teams can increase their local revenues.

So in our hypothetical league, lets say there is a team in Metropolis, a big city, that just signed a TV deal for its preseason games, increased their ticket prices, and added a huge video board , that when all is said and done, for the next season, will add a total of \$ 40mm in revenue.

Another big market just opened their new stadium, which now seats 100k people and has 200 suites that they are charging an arm and a leg for because their teams is on a roll, having made the playoffs the last couple years, with what appears to be a bright future. In this first year of the stadium, they expect to add 100mm in local revenues more than they had last year.

In BFE, one of the smaller markets in the league, they just had a terrible season. Although they have a stadium they moved into just 8 years ago, they have no pricing elasticity for tickets or advertising, and in fact their attendance is declining. As a result, despite the additional TV revenue they will get from the new TV deal the league has signed, they will see a decline in total revenues of 5mm dollars this year and if they don't have a good season, revenues could decline further in future years.

For the sake of this example, we will assume the other 17 teams had a net revenue impact of zero

Overall the business for this hypothetical league is good. Their national TV deal just renewed, and merchandise and advertising sales are great. At the national level, total league revenues will increase 5mm per team, or 100mm dollars.

So in this hypothetical example, to figure out the how the cap would change, we would take the 40mm increase that Metropolis had , add it to the 100mm dollar change for the 2ND big market team, add to it the 100mm dollar increase from the new national TV deal and then subtract the 5mm decline that BFE had, for a net increase of 235mm for the league. Then to get the salary cap increase, we multiply that number by 50pct (\$117.50) and divide by 20 teams. So the salary cap would increase by \$ 5. 875k from 50mm to 55.875mm per team.

As you can quickly figure out, for the teams with new, big market size TV and stadium deals, the increase in the cap is no big deal. For those teams from BFE, who don't have pricing elasticity or markets that can support stadiums that seat 100k, things are not so good. Every year seems to bring an increase in the salary cap , which their local fans and their own desire to win pressures them to spend up to, yet their total revenues never seem to keep up with.

Add to this pressure, the design of how contracts are structured so that teams which perform the worst and have the least pricing elasticity, get the highest draft picks and must write out checks for huge signing bonuses for their rookies, who they have no idea whether or not they will preform. Its not that they don't want the high draft picks, but there is no question that their financial risk equation escalates dramatically.

These same teams, also feel the greatest pressure to sign new free agents. Again, which carry significant financial risk with big upfront payments, and on field performance risk. There is no template for winning and the stress levels go way up when its eating up every dollar you have to try to win.

At this point, most fans argue that this shouldn't matter because teams in the NFL, oops, I mean our hypothetical league are making huge sums of money, so what does it matter ? Honestly, I don't know if 100pct of the teams are making money or not. What I do know is that with new stadiums being built in Dallas and New York that the local revenue numbers are so huge that the NFL had to ask that some of the NY stadium money be excluded from the cap calculations. There is no way for small market teams to be able to keep up with the big markets. Their sheer market size allows them to increase revenues, which in turn increases the cap by a magnitude that the small markets won't ever be able to keep up with.

This becomes more evident when you see a small market team like Buffalo smartly sell some of their home games to a much larger city of Toronto.

Which is exactly why, IMHO, the NFL opted out of their agreement. The small market teams see the writing on the Income Statement and Balance Sheet walls. They see the look in their bankers bloodshot eyes. Things will get worse before they get better, so better plan on changing things now.

Have the days of salary caps come and gone ?

The salary cap was a very smart move during an era when the scale and growth of national TV and other national league revenue sources more than compensated for the variances in local revenues of small and large markets. In those days, whatever money came to teams, regardless of source seemed to go right back out of their pockets. The cap helped protect us sports owners from ourselves, equally..

Is a salary cap still a smart move ? Or is it better to be cap less, like baseball, but with a very strong tax and revenue sharing program ?

**The bottom line problem for current cap systems is that one teams financial success can have a significantly negative impact on the financial performance of another. Rather than enjoying the success of the new stadiums in the big markets, or the big local TV or advertising deals they sign, small markets are shell shocked by the annual increases in the cap they create. Increases that they can't possibly keep pace with.**

**When this happens, teams have to “give up” on their players and seasons more often in order to try to rebuild, which in turn hurts not only the fans and the league, but also the players as higher priced players lose slots to lower priced and younger players.**

**That's not a good situation for anyone. Its a huge problem that needs to be solved.**

A cap can work if its based on national rather than local revenues. Even if its a higher percentage of those revenues than is currently paid. If only national revenues are applied to cap calculations then the change in the cap available to teams every year impacts all teams equally. if a team can manage their local business successfully, they will make money. If the teams succeed, the league succeeds and the national money will grow and the money paid to players will grow at the same pace.

Can a league survive without a cap ? Yes, but I think it must be a league where it takes **more** than 1 or 2 players to lead a team to a championship. Otherwise, the richest teams can just buy those 2 players, with a 3rd as insurance, which means the competitive balance of the league is purely dependent on finances. That is not a good position to be in. Baseball and football are 2 leagues that I can think can survive (as baseball has) quite nicely without a cap. The NBA and NHL would struggle competitively without them.

Hopefully this helps explain, at least from my perspective, why the NFL would opt out of its CBA when its doing so well