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New Orleans Faces Competiton

Louisville, Kansas City among the cities interested in the Hornets.

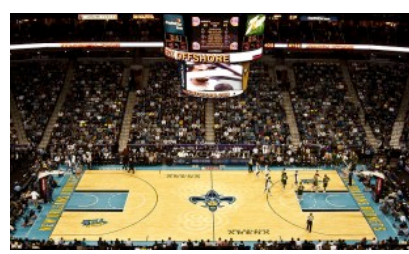
by Kyle Stack / @KyleStack

It's been more than eight years since the Hornets left Charlotte for New Orleans. To hear the way some non-NBA cities speak of their desire to acquire an NBA franchise, the Hornets won't have a lack of suitors should they move again.

Since the NBA bought the Hornets in early December for \$300 million, speculation has ensued on whether they will stay in New Orleans. While several cities told SLAMonline they're interested, there's no guarantee the Hornets will pack their bags for the second time in their 22-year history. There are many points to be made about the franchise's future, but let's retrace the steps that brought them to this point.

The Hornets' original owner, George Shinn, paid \$32.5 million in 1987 to establish an NBA expansion franchise in Charlotte. The entrepreneur, in concert with then co-owner Ray Woolridge, moved the Hornets to New Orleans in 2002 after a contentious battle over public financing for a new arena in Charlotte was denied. "The situation with Shinn in North Carolina had become untenable," said Ben Klayman, a sports business reporter for Reuters, during a phone interview.

Yet the Hornets have struggled in a city which the Utah Jazz called home from 1974-79. (They obviously went by the New Orleans Jazz during those years.) The devastation Hurricane Katrina brought to New Orleans in September 2005 forced the Hornets to play most of their home games in Oklahoma City for the 2005-06 and 2006-07 seasons. The Hornets returned in the 2007-08 season to a city which the U.S. Census Bureau estimated had a population of roughly 223,400 in 2006, a 54 percent reduction from its official total in 2000.



Attendance wavered as the U.S. economic downturn took its effect on Americans' discretionary spending: from 14,181 per game (2007-08), up to 16,968 (2008-09) then back down to 15,130 (2009-10). Only 14,156 fans, on average per game, have filed into the 18,500-seat New Orleans Arena this season. The inconsistent attendance, save for the '08-'09 season, and inadequate on-court performance has had a sizable effect on the team's financial health. That much is evident in the Hornets' 2008 and 2009 financial documents, obtained earlier this month by Deadspin.com.

The documents reveal that in 2008, the Hornets had a negative operating income of \$6.4 million. They finished 2009 with a positive operating income of \$5.9 million, although that was propped up by an infusion of \$3.4 million from the NBA. That was thanks to the League's Revenue Assistance Plan, which paid teams if they suffered an actual loss *and* a loss computed by finding out what the team "would have earned with average on-court performance and effective revenue generation and expense control," the document describes. There was more fiscal doom for Shinn and the Hornets.

The Deadspin-leaked documents show that as of June 30, 2009, the Hornets owned a deficit of roughly \$83 million. Shinn's plan to sell his remaining 65 percent share of the team to co-owner Gary Chouest, who bought

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a 25 percent share of the club in 2007 and eventually increased that share size to 35 percent, was discovered in May. Yet that plan never came to fruition as Chouest reportedly took a large financial hit in the companies he owns, which serve the offshore oil and gas industries.

Shinn was bleeding money, putting himself in great personal debt, just to run a team without a clear path toward joining the League's elite. So, the NBA swooped in and bought the Hornets for \$300 million, even though *Forbes* valued the franchise at just \$267 million in its 2009 NBA team value rankings. What the NBA does with the team is anybody's guess at this point.

"This came out of nowhere, so the best guess is they have something planned," said Gabe Feldman, Director of Tulane University's Sports Law Program, by phone. "I don't see them holding the team a particularly long period of time."

For now, Stern has stated his preference for the Hornets remain in New Orleans. Jac Sperling, a New Orleans native who is Vice Chairman of Minnesota Sports and Entertainment, a parent company of the NHL's Minnesota Wild, was recruited by Stern to serve as the Hornets' chairman and governor.

Even with Sperling's greatest effort to keep the Hornets in the Bayou, there's still a way for them to move as early as next season.

A loophole in the Hornets' lease at New Orleans Arena permits the team to exit their agreement after this season — the agreement runs through 2014 — if average attendance falls below 14,735 during a two-year period ending Jan. 31. Doug Thornton, an executive with SMG, the company that operates New Orleans Arena for Louisiana, told the Associated Press that the Hornets must average 14,883 for 12 home games beginning with their Dec. 15 contest to keep the lease intact. In four home games since then, they've averaged 15,361, including 15,000-plus Dec. 22 and 26 and over 18,000 for the Lakers game Dec. 29.



The Louisiana and New Orleans government offices have tried to make sure the Hornets meet their attendance requirement. A press release issued Dec. 13 by the State of Louisiana's Office of the Governor stated that Governor Bobby Jindal and New Orleans Mayor Mitch Landrieu urged Hornets fans to buy tickets so that attendance would spike. They didn't say it, but they basically were asking fans to attend so that the Hornets wouldn't have a chance to opt out of their lease.

Incidentally, a group called Hornets Business Council has begun raising hundreds of thousands of dollars which could be used to purchase tickets for Hornets home games. Hornets Business Council couldn't be reached for this story. Multiple e-mails and phone requests to Mayor Landrieu's office to speak for this story went unanswered, and Governor Jindal's office responded to an e-mail with a link to the aforementioned press release.

The political support behind the Hornets might be enough to keep them there short-term. The NBA also has an incentive to keep the team where it is, according to Robert Baumann, Associate Professor of Economics at Holy Cross.

"I don't think the NBA takes a lot of pleasure in teams moving around," Baumann said via phone. "It threatens the brand of their products." He cited a connotation of teams moving just to make money as one which would shine a negative light on how the NBA conducts business.

Likewise, Klayman feels the NBA is staying conscientious of the entire League. "This is a move to protect the value of other teams," Klayman said. "The NBA could hold onto the team for awhile, then sell it at a better time."

Klayman noted that if the NBA wanted to let the Hornets move, there wouldn't be a problem selling the club for a larger amount than the \$300 million price tag at which they purchased it. The buyer would likely pay an amount respective of the city in which the Hornets would be placed. He compared the NBA's case to MLB's purchase of the Montreal Expos in 2002, after the league unsuccessfully tried to contract the club.

John Vrooman, a sports economic professor at Vanderbilt University, explained MLB's financial reward as a result of owning the Expos. The league paid \$120 million for the Expos, moved them to Washington D.C. in 2005 — where they became known as the Washington Nationals — then flipped them in 2006 to Ted Lerner for \$450 million. A publicly-funded \$600 million-plus ballpark followed Lerner's purchase. Vrooman added the NBA has already set a precedent when it gave Charlotte another expansion team in 2004 — the Bobcats. The 'Cats paid a \$300 million expansion fee and followed that in 2005 with brand-new Time Warner Cable Arena.

"These two cases are similar in that the League as partners in ownership purchased/created the teams and then negotiated directly with [Washington] D.C. and Charlotte as take-it-or-leave-it monopoly leagues," Vrooman wrote in an e-mail message. "In both cases, MLB and the NBA owners used their collective monopoly power to leverage maximum public venue concessions before selling the respective teams to wide-eyed owners."

One might think these these examples would convince prospective groups to turn the other cheek toward NBA ownership. On the surface, there doesn't appear to be a sure-fire location. Feldman noted a real problem in store for the NBA if it can't find an owner to keep the team in New Orleans.

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John Wall's not the average rookie.

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"I'm not sure there are that many viable candidates out there," Feldman said. "Every city that's a possible alternative has its own issues."

Still, the NBA has options outside New Orleans. SLAMonline spoke on the record to representatives at four cities which expressed varying degrees of interest in becoming a home to an NBA franchise. The most prominent of those is Louisville, which previously played home to the ABA's Kentucky Colonels from 1968-76.

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[nbk](#) Posted: Jan.3 at 12:08 pm

I will never understand putting a team in a City that has already failed as an NBA home. New Orleans and Kansas City both do not deserve a team. Kansas City is going to get an NBA team but they won't even go to Royals games, does that make sense?

[slamfan4life](#) Posted: Jan.3 at 12:57 pm

This is sad, atleast they got the Saints! WHO DAT

[Chris_Griff_3](#) Posted: Jan.3 at 1:11 pm

I only want Seattle to buy them.

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