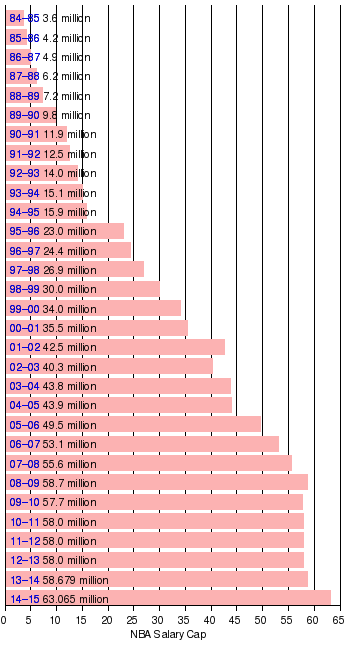
**The Upcoming NBA Salary Cap Increase and its Effect on the 2015 Offseason… By Ben Eisenberg and Evan Garden**

The NBA 2015 offseason has seen some enormous contracts offered to free agents. These contracts have been offered to both superstars and rising stars. The amount of money in these contracts is both surprising and [unprecedented](http://www.nola.com/pelicans/index.ssf/2015/07/anthony_davis_officially_signs.html) in the NBA’s history. However, there is a legitimate reason for the teams’ ridiculous spending. To understand the context of these huge deals, and what it means for the next few years of free agency, we’ll first need to understand the NBA’s salary cap system.

**NBA Salary Cap**

    The NBA uses what is know as a “soft” salary cap. Each team can only spend a certain amount of money on payroll based on a figure the league sets each year. The cap prevents big market teams from luring players on small market teams away with huge contracts. However, the cap is not as simple as one definite ceiling; in order to allow teams to retain fan favorites, the NBA allows exceptions to the general rule. For example, any team is permitted to re-sign their own players to as much money as the maximum deal allows - a max contract is 5 years for 25%, 30%, or 35% of the salary cap, depending on the player’s credentials and league experience - despite the salary cap. There are also smaller exceptions for veterans and low salary players. As a team uses these exceptions, they are liable to pay extra money to the league if they exceed another cap set by the league, the luxury tax line. Once a team’s payroll exceeds the luxury tax line, they must pay money back to the league based on how much they have spent. This money is then shared with other teams. For repeat violators of a payroll above the luxury tax line, there are even harsher penalties, as shown below.

|  |  |  |
| --- | --- | --- |
| Amount over tax threshold | Standard tax per excess dollar | Repeat offender tax per excess dollar |
| $4,999,999 or less | $1.50 | $2.50 |
| $5 million to $9,999,999 | $1.75 | $2.75 |
| $10 million to $14,999,999 | $2.50 | $3.50 |
| $15 million to $19,999,999 | $3.25 | $4.25 |
| Over $20 million | $3.75 +$0.50 per $5 million | $4.75 + $0.50 per $5 million |

**Salary Cap Increase**

The NBA signed an [epic new TV deal](http://www.nytimes.com/2014/10/06/sports/basketball/nba-said-to-be-near-new-tv-deal-for-24-billion.html?_r=0) in 2014 that will give the NBA $24 billion over the next 9 years. As a result, the salary cap is set for a dramatic increase in the next few years. The salary cap has jumped to $70 million for the upcoming season, and USA Today projects that it will skyrocket to $89 million next season, and then $108 million in the following season. Compared to the relatively slow climb of the salary cap the past 10 years, the 71% increase over the next 3 years is unheard of. As the salary cap rises, so does the value of a maximum contract, which will spawn some of the greatest contracts the NBA has ever seen. Anthony Davis has already signed a 5-year, $145 million extension with the New Orleans Pelicans, but that will be far from the biggest deals we’ll witness. In a few years, the superstars of the league will be able to garner contracts worth around $40 million per year! Moreover, it won’t only be the superstars staring wide-eyed over their new contracts, as the higher cap will grant bigger deals for every player.

**Impact on this summer’s free agency**

Already, the effects of the new TV deal have been felt around the league. The upcoming cap increase has caused teams to lock up almost every player on the market to long-term deals.   So far, there have been 23 free agents who have signed contracts of at least $50 million this offseason. The previous 4 offseasons, there was a combined total of 13 contracts signed for over $50 million. There are two main reasons for the uptick of large deals. Obviously, the larger salary cap is going to increase, the more money the players will make. However, that does not explain why teams are signing all of these long term deals now, rather than next summer. In the past, teams had more patience when deciding to sign young, potential stars to long term deals. Yet, this summer has seen some weird deals for players that don’t seem to deserve them. Players such as Robin Lopez and Thaddeus Young are earning around $13 million per year for 4 years. Even 32 year-old Tyson Chandler is still commanding a 4 year, $52 million deal.  Khris Middleton, the 39th pick of the 2012 draft, and fourth best player on the terrifying Milwaukee Bucks, just signed a $70 million deal.

The cap spike is causing free agents and team management to re-consider how to structure their deals. They must now try to find the happy medium between what the player’s value is now on a $70 million cap versus what the player’s value is in 2 years on a $108 million cap. Take DeMarre Carroll for instance: this past season, he emerged as an important cog in the Atlanta Hawks’ system, drawing comparisons to players like Danny Green and Trevor Ariza, while averaging 12.6 PPG on 49% FG% and 40% 3P% (all career bests), as well as 5.3 RPG and 1.7 SPG. He established himself as one of the premiere 3 and D players in the league, an important ingredient in a championship recipe (See: Klay Thompson, Green, Kawhi Leonard, Ariza, Bruce Bowen, etc.). As a result of his improved play and the scarcity of superior perimeter players, he was able to command a 4 year, $60 million deal from the Toronto Raptors. However, some say that while Carroll did improve this past season, specifically in the postseason against LeBron and the Cavs, it wasn’t enough to command $15 million per year when someone like John Wall, an All-Star and potential All-NBA candidate, is making $16 million per year.

    Unfortunately, these critics are looking at Carroll’s contract through the wrong lens; instead of comparing it to the current cap, they should project how it will fare in 2 years. Right now, Carroll’s contract is a bit excessive; he just became the highest paid player on the Raptors’ roster, when he is at best their #3 option behind Kyle Lowry and DeMar DeRozan. Furthermore, his $15 million eats up over 20% of their available space, which is not very encouraging. However, the Raptors’ management knows that Toronto is not the most attractive free agent market (just ask Lamarcus Aldridge, who spurned Toronto for Pop and co. in the Lone Star State), and Carroll is a relatively underrated player that fits well into their system alongside DeRozan and Lowry on the perimeter.

Being able to lock down Carroll for 4 years is tremendous for two reasons. First and foremost, Carroll’s value should only increase with time: based on the aforementioned cap projections, that $15 million will likely turn into 17% of the cap next season, which is a reasonable value for a player like Carroll. The following season, that percentage will drop in the range 13-15%, which will end up being great value if Carroll continues to develop the way he did this past season. Secondly, prior to signing Carroll, the Raptors only had one player under contract past the 2016-17 season (Lowry has a 4th year player option that he will almost certainly opt out of considering his improved play these past 2 seasons). Therefore, having the security that they at least have someone like Carroll, an above-average player who can fit into several systems, is going to be helpful when trying to convince free agents to come to Toronto. Granted, this is all contingent on Carroll following a trajectory similar to what he’s started this year. Nevertheless, we’re fans of Raptors’ GM Masai Ujiri taking this calculated risk: overpay for Carroll now so they can underpay for him later. If we were to evaluate each deal from this offseason in a similar manner, a pattern would soon emerge. Teams are slightly overpaying for above average players now to avoid paying much larger deals next summer. This may certainly be true for the Pistons’ newly signed Reggie Jackson, who may have been able to earn himself a maximum deal in a few years if he reaches his potential.

With this expected spike in the salary cap, it stands to reason that players would want to be free agents in the next two years. At its core, the NBA is a multi-billion dollar business, and everyone in the business wants to maximize their profits, from owners to employees. However, there is an extra dimension of risk associated with the NBA that normal businesses don’t deal with, and that is the potential for injury. The value of an NBA player is almost exclusively contingent on their health, something that is inherently unpredictable. If you don’t believe me, look at players like Greg Oden, Brandon Roy, or Joel Embiid, all of whom were supposed to be franchise-altering stars that couldn’t fight the injury bug.  Therefore, when players structure their deals, some bet on themselves and their bodies, taking risky short term deals that will allow them to gain more money after improving statistically for a season or two, while others will take long term, guaranteed contracts that give them steady income but leave no room for growth. Additionally, there is a “player option”, which is an option that allows a player to either extend his contract for an additional year, or to “opt out” of their contract as they say, and enter free agency. Essentially, this gives players an early exit opportunity for contracts that aren’t serving them properly.

For example, Cleveland Cavaliers SF LeBron James just signed a 2 year, $47 million contract, with a player option for the 2016-17 season. The player option means that after the 2015-16 season, LeBron has a decision to make: whether to opt in to the final year of his contract, or to opt out and enter free agency again and try and get a new, more expensive deal. This is where LeBron’s business acumen compares to his on-court talent; James is very much aware of both the impending cap spike as well as his status as the premiere basketball player in the world. He knows that he can command top dollar for at least the next 3 years, and that Cleveland will do whatever it takes to keep him on their roster. Therefore, he is structuring these short term deals so that he can opt out every year and enter free agency, under the threat that he could potentially leave Cleveland for greener pastures. In this case, LeBron is betting on himself to remain healthy, which is probably one of the safest bets in the league; although he has taken heavy minutes his entire career, LeBron has played fewer than 75 games only twice in his career (69 GP in 2011-12, 62 GP in 2014-15). Even so, I’m confident that every GM in the league would take 62 games of LeBron over 82 games of any non All-Star in a heartbeat.

This forces the Cavs to remain on their toes and appease all of LeBron’s “demands” in free agency with respect to acquiring new talent. What we predict will happen, is LeBron will continue this cycle for two more years, until the 2017 summer, where the cap will spike to unprecedented heights (projected north of $105-108 million); at that point, LeBron will be 32 and right at the end of his prime, and will sign a max contract in the range of $40-45 million per year that will carry for the rest of his career. Don’t let LeBron fool you though: he is an exceptionally unique, once-in-a-generation player, and is really the only person in the league that can command those deals and that kind of respect from GMs. Usually, we see player options structured in the final year of long term deals (3, 4, or 5 year deals), so that teams are guaranteed to get a significant return from the players who they sign.

On the contrary to LeBron’s decision to short term deal were the decisions made by Kevin Love and Brook Lopez.  Both have been plagued by injuries throughout their careers. Love has broken his hand twice and is currently rehabbing from a dislocated shoulder that sidelined him from much of the playoffs, while Lopez has missed almost two complete seasons with foot and ankle troubles (5 GP in 2011-2012, 17 GP in 2013-2014). Both players opted out of the final year of their contracts and chose to sign long term deals rather than take advantage of the cap increase next year. For Love, this means a [5-year, $110 million contract](http://espn.go.com/nba/story/_/id/13181983/kevin-love-agrees-five-year-110-million-contract-cleveland-cavaliers) with Cleveland, and for Lopez, a more modest [3-year, $60 million deal](http://www.sbnation.com/nba/2015/7/1/8811983/brook-lopez-contract-signs-nets-free-agency-nba) with the Brooklyn Nets. Love and Lopez secured their financial future with long-term deals rather than betting on their frail bodies. Meanwhile, Dwyane Wade chose the riskier path by signing a 1-year, $20 million deal. Although this deal gives Wade more flexibility in the future, the decision was curious for a player who has not logged 75 games played since 2010-2011. Unless Wade is miraculously able to stay healthy this season - which seems highly unlikely at 33 years old on the knees that look twice as old - he will have lost his bet with father time.

Ultimately, these several mentioned contracts only paint a fraction of the greater free agency picture; the NBA spent north of $1.4 billion in guaranteed money on the first day of free agency alone, and rightfully so. Right now, the association is as popular as it has ever been, and that trend looks to continue as the NBA continues to expand its influence globally. With such a large spotlight cast on these multi-million dollar athletes, as fun as it is to try and predict what will happen in the future, only time will tell how these events truly play out.

Still, if this free agency showed us anything, it is that the NBA - and basketball as a whole - is evolving into a year-round affair. With the growing popularity of social media, specifically Twitter, as a medium to report on free agency rumblings as they are developing, many would say that late June-July is one of the most exciting parts of the year for basketball fans. Furthermore, social media gives NBA players the unique opportunity to connect with fans directly throughout the year. If given the choice, we would rather experience the week long [emoji-filled Deandre Jordan saga](http://www.sbnation.com/lookit/2015/7/8/8914659/the-clippers-mavericks-battle-for-deandre-jordan-is-all-out-emoji) again in lieu of some of the 2015 first round playoff series (yes, we’re looking at you, Cavs-Celtics). Also, with the FIBA World Cup and/or Olympics occurring in 2 Augusts every 4 years, we’re looking at every other year being completely saturated with basketball action. In short, there has never been a time greater than now to be a basketball fan.