

SAN ANTONIO SPURS

Salary Cap Prospectus 2023-2024

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~INTRODUCTION~

Why I decided to do this:

With so many new CBA changes being discussed in the media, I wanted to apply a practical application of the new rules to different team situations. I do want to note, this Prospectus is relying on the deal memo and not the text of the new CBA as it has not been released. Thus, some of the information may change accordingly.

Team Selection Approach:

I took two teams with different salary cap outlooks in the 2023-2024 Offseason:

- (1) a team below the Minimum Salary Threshold (Spurs);
- (2) a team projected to be over the newly implemented “Second Apron” (Warriors).

Analysis:

I did not want to opine on what a team *should* do, but instead wanted to determine the salary cap consequences *if* a team took different potential “Pathways” given (i) the team’s current salary cap situation and (ii) the phasing in of the new CBA rule changes through the 2025-2026 Salary Cap Year.

How to Read this Prospectus:

Feel free to use the links to jump to the information needed to better absorb the information. This does not read like a narrative. The Salary Cap numbers and roster breakdowns are meant as reference for the “Pathways” and provide background why certain CBA changes affect this team the most.

Enjoy.

~Salary Cap and Roster Breakdown~

<u>Current Salary Cap Status</u>		
	League Levels (projected) ¹	Spurs Available Room*
Projected Salary Cap	\$134,000,000	\$42,103,661
Luxury Tax	\$162,000,000	\$70,103,661
First Apron	\$170,116,227	\$76,469,888
Second Apron	\$179,500,000	\$85,853,661

*Team Salary - \$91,896,339 with \$1,750,000 in Unlikely Bonuses after removing Cap Holds (i.e. only includes Guaranteed and Non-Guaranteed Salaries)

Minimum Team Salary - \$28,703,661 from reaching Minimum Team Salary Threshold

<u>2023 Offseason Roster Breakdown</u>	
Four open roster spots in 2023-2024 season assuming SAS retain Collins (non-guaranteed) and Wembanyama is on Active Roster	
<p><u>11 Players Under Contract</u> (\$8.4 average salary)</p> <ul style="list-style-type: none"> ➤ 10 Guaranteed Contracts <ul style="list-style-type: none"> ○ 4 Rookie Scale Contracts ○ 5 Extension Eligible Contracts <ul style="list-style-type: none"> ■ (4 Veteran, 1 Rookie) ➤ 1 Non-Guaranteed Contract (Zach Collins) 	<p><u>7 Expiring Contracts</u></p> <ul style="list-style-type: none"> ➤ 4 Restricted Free Agents ➤ 3 Unrestricted Free Agents

<u>Roster Breakdown After 2023-2024 Season</u>	
<p><u>2024 Offseason Outlook</u></p> <ul style="list-style-type: none"> ➤ 2 Guaranteed Contracts (~22.4% of forecasted Cap) <ul style="list-style-type: none"> ○ Johnson (\$19 million) ○ Wembanyama (\$12.57 million) ➤ 3 Rookie-Scale Team Options <ul style="list-style-type: none"> ○ Sochan ○ Branham ○ Wesley ➤ 2 Non-Guaranteed Contracts <ul style="list-style-type: none"> ○ Graham (\$12.65 million) ○ Bassey (\$2.5 million) 	<p><u>4 Expiring Contracts</u></p> <ul style="list-style-type: none"> ➤ 1 Restricted Free Agent ➤ 3 Unrestricted Free Agents

¹ “Projected” Salary Cap is the NBA’s projection for the 2023-2024 Salary Cap Year. The “Forecasted” Salary Cap is a fixed 5% increase in each subsequent Salary Cap Year. See [Appendix B](#) for full mathematical breakdown.

~2023 Roster Decisions~

Restricted Free Agents

Player	Qualifying Offer	Pct. CAP Space (\$42,103,661)	Pct. Projected CAP (\$134,000,000)
Romeo Langford	\$6,521,680.57	15.5%	4.9%
Tre Jones	\$5,216,323.74	12.4%	3.9%
Dominick Barlow	Two-Way + \$50k Comp. Prot.	N/A	N/A
Julian Champagne	Two-Way + \$50k Comp. Prot.	N/A	N/A

Extension Eligible - Rookie Scale

Devin Vassell

- If Rookie Extension is not signed and Vassell becomes RFA, his applicable Qualifying Offer amount increases 10% per the 2023 CBA.
- Projected Qualifying Offer for Vassell would be \$9,112,938.31 if “Starter Criteria” reached or \$8,298,577.62 if not reached (did not reach Starter Criteria after 2022-2023 Season).

Extension Eligible - Veteran²

Khem Birch (eligible on August 6, 2023)

- \$6.985 million in last year of Contract

Devonte Graham (eligible on August 7, 2023)

- Two years remaining (\$12.1 million; \$12.65 million partially non-guaranteed)

Doug McDermott (eligible on August 8, 2023)

- \$13.75 million in last year of Contract

Zach Collins (eligible on August 11, 2023)

- Final year of \$7.7 million becomes fully guaranteed on June 23, 2023 (day after NBA Draft)

² First year Salary of Veteran Extension can be up to 140% of the last year of original contract (up from 120%).

Rookie Scale Contracts - Team Options

Player	2024-2025 Salary	Pct. Forecast CAP Space (\$140,700,000)
Jeremy Sochan	\$5,570,040	4.0%
Malaki Branham	\$3,217,920	2.3%
Blake Wesley	\$2,624,280	1.9%

Roster Decision Deadlines

Qualifying Offer	June 30, 2023
Rookie Scale Extension	Start of Regular Season
Veteran Extension (non-final year)	Start of Regular Season
Rookie Scale Team Option (2023-2024)	October 31, 2023
Veteran Extension (final year)	June 30, 2024 (prior to new Salary Cap Year)

~Pertinent 2023 CBA Changes~

*Pros and cons of the changes to the CBA given the current status of the Spurs' Salary Cap
(see [Appendix A](#) for specific rule change; for all changes visit [CBA Change Tracker](#))*

PROs - Changes likely to benefit the Spurs in the upcoming offseasons

Tax Rate Adjustments
First, upper-tier tax paying teams will likely seek to shed salary to avoid a significant tax bill beginning in the 2025 Salary Cap Year, which may lead to valuable trade opportunities and less competition in the free agent market.
Second, if the Spurs add more significant Team Salary during the roster-building process and enter the tax, the lower tax brackets are not as punitive.
Apron Team Limitations
Similar to the new tax rules, Teams will look to shed salary to avoid roster-building limitations and the Spurs may be able to capitalize on acquiring value in contracts other teams simply cannot retain.
More Salary Cap Flexibility for Non-Apron Teams
Assuming the Spurs stay below the First Apron, the options to use the exceptions (whether a cap team or room team) are widely expanded, both in free agency and trades.

CONs - Changes likely to limit avenues of Salary Cap Optimization for the Spurs

Harsher Minimum Team Salary (MTS) Rules
Operating below the MTS threshold during the Regular Season for strategic purposes is eliminated.
Misaligns the Luxury Tax “snapshot” date (end of Regular Season) with the Minimum Salary date (start of Regular Season). A team can shed salary throughout the Season to gain tax relief, while the Spurs cannot sit below the MTS threshold during the same timeframe. The Spurs will lose leverage getting closer to the Regular Season because teams know they <i>must</i> reach the MTS threshold at that time.
Harsher penalties for being below MTS threshold renders doing so worthless. Team Salary automatically increases to the MTS threshold and a team cannot partake in revenue sharing as it would have if not below the MTS threshold.
Increased Qualifying Offer (QO) Amount
The Spurs are expected to have four First Round Picks on Rookie Scale contracts after the 2023 NBA Draft and the potential for six more First Round Picks through the 2025 draft.
The Spurs will likely not exercise every team option for their rookies, subjecting some of them to Restricted Free Agency (RFA). The increased QO amount will tie up more Team Salary during the offseason.

~Offseason Pathways~

Introduction

This Section is not meant to discuss how a team *should* proceed or what players a team should trade, release or acquire. Instead, I provide two different “Pathways” the team could realistically take in the near future and what effect the changes in the CBA will have to those Pathways.

Pathway #1 - Acquire and Win Now

Pathway #2 - Be Patient, Assess and Add Value

Pathway #1 - Acquire and Win Now

Summary

Spurs use their available Cap Room to pursue a top-end starting veteran to place alongside Johnson and Wembanyama. After signing a top-end free agent, they can optimize the increased flexibility of the Salary Cap Exceptions under the new CBA to pursue additional depth to fill their remaining roster.

Roster

Restricted Free Agency

Make QO to Tre Jones, tying up \$5,216,323.74 before entering free agency, then use his Bird Rights to sign him over the Salary Cap.

Veteran Signing - Flexibility in salary range depending on Free Agent Availability

1. After making the QO to Jones, the Spurs have 27.5% of Salary Cap space to sign a top-end free agent
2. Should the Spurs seek 30% or 35% to sign max a Free Agent, they have the following options (absent dumping salary via trade):

Transaction	% Cap Space Cleared
Unilaterally withdraw Jones' QO (7/13/23 deadline)	3.9%
Waive Collins' Non-Guaranteed Salary (6/23/23 deadline)	5.7%
Waive and stretch Bassey's \$2.6 million Salary, leaving \$866,666.67 in dead salary over three years (1.3% Salary Cap) ³	1.3%
Waive and stretch Birch's \$6.985 million Salary, leaving \$2,328,333.33 in dead salary over three years ⁴	3.5%

Roster Makeup - Depending on how they reach their goal of signing their top-end free agent above, the Spurs will likely have 2 to 3 roster spots available after signing a top-end free agent

³ Could not seek to resign Bassey while Salary is stretched.

⁴ Could not seek to resign Birch while Salary is stretched.

Team Salary and the Salary Cap

Team Salary - Irrespective of the avenue used in the “Roster” section above, the Spurs would hover around the Salary Cap of \$134 million.

Non-Taxpayer Mid-Level Exception (NTMLE) Triggered - Salary - The 2023 CBA increases the NTMLE to ~\$12.2 in 2023-2024, which will be triggered as a tool the Spurs can use once within \$12.2 million of the Salary Cap.

Trades

- The increased trade allowance rules under the new CBA will also create great flexibility in salary matching for the Spurs as a Non-Apron Team.
- The Spurs have four expiring contracts ranging from \$5.8 to \$13.7 million, allowing for easily tradable salary should the right opportunity arise.
- Specific examples of the flexibility under the new rules (subject to other trade rule/exceptions)
 - \$5.8 million Outgoing Salary = \$11.85 million Incoming Salary (previously \$10.25)
 - \$13.7 million Outgoing Salary = \$21.2 million Incoming Salary (previously \$18.7)

2024-2025 Outlook

Team Salary - May still have significant Cap Space after aggressive 2023 offseason.

1. Depending on the resigning of Jones and extension of Vassell, the Spurs could project to have similar Cap Space as in 2023 (~\$40 million) given the expiring contracts of McDermott, Collins, Birch and Vassell (RFA).
2. This includes (i) the Salary (~\$38.6) of a top-end free agent 2023 signing of a top-end free agent and (ii) exercising all Rookie Scale Team Options in 2023 (Sochan, Branham and Wesley).

Roster Makeup

1. Two Non-Guaranteed contracts
 - a. Graham (\$12,650,000, 22% guaranteed)
 - b. Bassey (\$2,500,000)
2. One RFA (assuming Rookie Extension not signed in 2023)
3. May have Three First Round Picks

Pathway #2 - Be Patient, Assess and Add Value

Summary

Spurs don't make any aggressive moves in free agency and wait for the second or third waves of free agency before executing transactions. They retain their own players and end-of-the-rotation UFAs/RFAs on reasonable contracts to allow more flexibility after assessing the teams trajectory after the 2023-2024 Season. In doing so, they capitalize on likely being one of the only teams able to be extremely aggressive in free agency and trades, particularly when acquiring a large contract.

Roster

Free Agency

Pursue players after the first wave of Free Agency who are valued more than the NTMLE and thus priced out of taxpaying teams.

Tre Jones

Make QO to Jones, which will tie up \$5,216,323.74 before entering free agency, then use Cap Room to resign him to market contract.

MTS Threshold (\$120,600,000)

- The Spurs must spend \$28,703,661 prior to the first day of the Regular Season to avoid the revenue share penalties and team salary imputations [discussed above](#).
- Waiting too long to sign players may force a desperation signing to reach the MTS threshold, so a balance of patience and timely execution is necessary.

Staying a "Room Team" is Not as Beneficial Under New CBA

- The Spurs will only, at most, stay \$13.4 million under the Salary Cap due to the need to reach the MTS threshold⁵.
- Given the increased amount of the NMLE to \$12.2 million, and the ability to use the NTMLE in trade, there is essentially no clear advantage to stay below the Salary Cap heading into the Regular Season.

Trades

- While Pathways #1 and #2 seek to acquire different asset types (i.e. rotation players vs. future picks), both Pathways have the ability to use the expiring contracts and increased trade allowance rules to acquire assets.

⁵ MTS Threshold is 90% of the Salary Cap: \$120,600,000. $\$134,000,000 - \$120,600,000 = \$13,400,000$.

2024-2025 Outlook

Summary - Should they seek not to commit to significant long term salary in the 2023 Offseason, the Spurs would only have \$42,991,480⁶ in guaranteed contracts (plus any Salary committed to Tre Jones if resigned) and \$15,150,000 in non-guaranteed contracts.

- This leaves the Spurs with anywhere from ~\$60 million to ~\$90 million in available Salary Cap entering the 2024-2025 Salary Cap Year⁷ to fill 7 to 10 roster spots.

Team Outlook

- Assessment - The Spurs were able to assess the trajectory of their team with their top prospect in Wembanyama through the 2023-2024 Season.
- Aggression - Now, the Spurs can begin acquiring top-end talent with significant Cap Room at a time when (i) Teams will be looking to shed salary and (ii) while potential trade suitors will be limited due to salary matching limitations for Apron Team, thus creating leverage for the Spurs.
- Pathway #1 - The Spurs can essentially adopt “Pathway #1” beginning in 2024-2025 with more Cap Room and closer to the time other teams need to tighten their Team Salary budgets.

⁶ Assuming the Spurs exercise the three Rookie Scale Team Options for the 2024-2025 Season.

⁷ It should also be noted the 5% forecasted Salary Cap increase will likely be a conservative percentage increase and the Salary Cap will likely increase at great rates over the upcoming seasons, creating more Salary Cap flexibility.

APPENDIX A CBA RULE CHANGES

PROs

Rule	Rule Change
Second Apron Implementation	<p>A Second Apron to be implemented \$17.5 million above the Tax Line (adjusting with the Salary Cap in future years).</p> <p>Second Apron Teams lose the following rights:</p> <ol style="list-style-type: none"> 1. Lose Taxpayer Mid-level Exception 2. unable to aggregate salaries of multiple players to satisfy Traded Player Exception (eff. after 23-24 Regular Season) 3. Cannot convey cash as part of Trade (eff. after 23-24 Regular Season) 4. unable to acquire a Player using a TPE in respect of a player whose Contract was traded pursuant to a sign-and-trade (eff. after 23-24 Regular Season)
Additional First Apron Limitations	<p>Buyout market limitation - A Team exceeding the First Apron cannot sign a waived player (i) during Regular Season (ii) whose waived Salary for the then-current Salary Cap Year was greater than the Non-Taxpayer Mid-level Exception.</p> <p>A Team exceeding the First Apron is unable to use Traded Player exception in excess of 110% of the Outgoing Salary (lessened from 125% + \$100k), and such amount is to decrease to 100% beginning on the last day of the 2023-2024 Regular Season.</p> <p>Shortened time frame to use Non-Simultaneous Traded Player Exception (eff. after 23-24 Regular Season)</p> <p>The \$250,000 “Trade Kicker” included in the trade allowance for incoming salaries is not available (eff. 24-25 Salary Cap Year)</p>
Non-Repeater Tax Rate Adjustments (eff. July 1, 2015)	<ol style="list-style-type: none"> 1. First two tax brackets (currently set at \$0 to \$5 mm and \$5 to \$10 mm) will be lowered \$0.50; 2. Second two tax brackets (currently set at \$10 to \$15 mm and \$15 to \$20 mm) will be increased \$1.00 and \$1.50, respectively
Repeater Tax Rate Adjustments (eff. July 1, 2015)	<ol style="list-style-type: none"> 1. First two tax brackets (currently set at \$0 to \$5 mm and \$5 to \$10 mm) will be increased \$0.50; 2. Second two tax brackets (currently set at \$10 to \$15 mm and

	\$15 to \$20 mm) will be increased \$2.00 and \$2.50, respectively
Salary Cap Exceptions for Non-Apron Teams	<p>Teams below the First Apron will have the following additional benefits to use:</p> <ol style="list-style-type: none"> 1. Non-Taxpayer Mid-level, Bi-Annual and Room Exceptions are available to be used to acquire salary in trade 2. Non-Taxpayer and Room Exceptions increase in salary amount 3. Room Exception increased maximum term increased from 2 years to 3 years 4. Tradable salary allowance increased for teams below the First Apron 5. Ability to use the 200% and \$7.5 trade allowance for incoming salaries (increased in the new CBA) is expanded from Non-Taxpaying Teams to all Teams exceeding the Tax Level but below the First Apron (eff. 24-25 Salary Cap Year)

CONs

Rule	Rule Change
Minimum Team Salary (MTS) Adjustments	<p>The following changes are implemented for the MTS Requirement:</p> <ol style="list-style-type: none"> 1. A Team must satisfy MTS requirement on first day of Regular Season (rather than last) and pay the difference 2. Failure to satisfy MTS requirement decreases Team’s revenue share to 50% (and will receive no revenue share beginning 2024 Salary Cap Year) 3. If a team is below the MTS threshold as of the First Day of the Regular Season, the difference will be added to the team’s Team Salary
Increased Qualifying Offer Amount	<p>Qualifying Offers First Round Picks (except for those making a Maximum Qualifying Offer) finishing Rookie Scale Contract shall increase ten percentage points, while otherwise applying the same calculation from the prior CBA</p>

APPENDIX B
SALARY CAP PROJECTION BREAKDOWN

2023-2024 Salary Cap Year	2023-2024 Salary Cap Year
Projected Salary - \$134,000,000 Percentage Increase - 8.14%	Forecasted Salary - \$140,700,000 Percentage Increase - 5%
Projected First Apron - \$6,996,729 Apron Formula - Increase prior Apron amount (\$6,716,000) by <u>half</u> the rate of the Salary Cap (4.18%)	Forecasted First Apron - \$7,346,565.45 First Apron Formula - Increase prior Apron amount (\$6,996,729) by the <u>full</u> rate of Salary Cap growth (5%) under the new CBA
Second Apron - \$17,500,000 Second Apron Formula - Fixed amount by new CBA for first year of implementation	Forecasted Second Apron - \$18,375,000 Second Apron Formula - Take prior Second Apron Amount and increase by the <u>full</u> rate of the Salary Cap growth (5%)
Minimum Salary - Increase at same rate of the Salary Cap (8.14%)	Minimum Salary - Increase at same rate of the Salary Cap (5%)