

## “ALLOCATION MONEY” AND OTHER MLS ROSTER RULES— HOW TEAMS LIKE INTER MIAMI CAN ADD TOP TALENT

By: Jeffrey Schlerf

With the headline news this past summer of Lionel Messi signing with a Major League Soccer franchise, it was easy to overlook that Inter Miami signed several additional international players. Before the Messi signing, the club had the maximum three “designated players.” There needed to be plenty of roster and salary maneuvering in order to execute all of these new signings and comply with the MLS Roster Rules and Regulations (“MLS Rules”) particularly with respect to team salary budgets. These rules are complicated, creating significant challenges for Miami in transforming its roster. Undercovering how and why the club navigated the way in which it did requires careful analysis of their application.

At the senior level, Miami signed not only Messi but two elite Spanish players in Sergio Busquets and Jordi Alba. All three were formerly at FC Barcelona. Moreover, the franchise added three rising U-22 talents in Diego Gomez, Facundo Farias and Tomas Aviles, the latter two being natives of Messi’s home country of Argentina. And all of these players would be managed by a brand new coach, Argentinian and former Barcelona manager Gerardo Martino. To explain how this was all done requires a “deep dive” into several key provisions of MLS Rules.

The first 20 spots (the “Senior Roster”) on an MLS club’s roster are subject to an overall “Salary Budget” (i.e., cap) of \$5,210,000 for the 2023 season. Under the league’s “single entity” model, technically players are employed and paid by the league, which funds the Salary Budget. For the Senior Roster, the “Maximum Salary Budget Charge” per player is \$651,250. Obviously that maximum is well below what is needed to entice an elite international like Messi to sign with an MLS team. That is where the “Designated Player Rule” comes into play. In summary, clubs can sign up to three players whose salary and acquisition cost (i.e., transfer or loan fee paid, averaged over the player contract’s life) exceeds that maximum. Each designated player’s Salary Budget Charge will be \$651,250, and the team is financially responsible for the compensation paid above that amount. In other words, the full salary does not count towards the team cap of \$5,210,00, just the Maximum Budget Charge. Messi and Busquets were signed in this fashion. Messi is reported to be making in excess of \$50 million (plus other payment streams from the league’s sponsor Adidas and its broadcast partner Apple TV) and Busquets, \$10 million.

Prior to these signings Miami already had three designated players: Rodolfo Pizarro, Leo Campana and Gregore (the latter being the team captain until Messi’s arrival). Now, as the result of various roster machinations, Pizarro is off the roster while Campana remains but is no longer a designated player. Messi and Busquets joined Gregore to fill out the three current designated player slots. Regarding Pizarro, the club was able to avoid buying out the remainder of his contract (which expires after this season) through a mutual termination agreement and free up his \$651,250 salary charge. The player later signed with AEK Athens in Greece in a “free” transfer. MLS Rules permit only one buyout per season, so doing it this way put Miami in position to later clear more cap space by an actual buyout of the contract of its back-up goalkeeper (freeing up \$587,184).

As between Campana and Gregore, the club had to choose one of them for removal from a designated player slot. To drop either of them from that category, the team was required to

reduce the player's Salary Budget Charge to below the maximum (\$651,250). This was done with Campana, as explained below. Effectuating this reduction while maintaining a player's actual compensation requires use of MLS "allocation money." This approach allows clubs to reduce a player's salary charge below the maximum under MLS Rules, thereby either avoiding use of a designation player spot or freeing one up for another player.

There are two types of allocation money in the league: 1) General Allocation Money ("GAM"); and 2) Targeted Allocation Money ("TAM"). Each team receives an annual allotment of GAM. In 2023 that amount was \$1,900,000. Clubs receive additional GAM in certain circumstances including when not qualifying for the playoffs, in exchange for the fee received for a player transfer outside of the MLS, when qualifying for the CONCACAF Champions League and when there is a league expansion. It enables a reduction in a player's Salary Budget Charge, all the way down to the lesser of \$150,000 or 50% of a player's charge. TAM is also distributed annually by MLS in a fixed amount to each team (it expires after four transfer windows; in contrast, GAM expires at the end of each season). For 2023 the allotment was \$2,720,000. However, an important distinction with GAM is TAM's application is limited to players earning more than the Maximum Salary Budget Charge (\$651,250), but no more than \$1,612,500. An eligible player's Salary Budget Charge can be brought down by TAM to no lower than \$150,000. Unlike GAM, TAM cannot be traded.

For Miami, going into this season it was awarded less allocation money for managing its roster than other teams. In 2020 it was sanctioned by MLS for violating MLS Rules when building its initial roster as a new franchise. One of the penalties was a reduction in GAM by \$2,271,250 over the 2022-23 seasons. Nevertheless, since teams are able to trade GAM, in April the club acquired \$1.6 million in additional allocation money in exchange for sending two players to CF Montreal. This would become precious MLS "currency" for its later acquisitions, although as explained below Miami needed to trade some GAM away in order to acquire more international player slots for these players.

Therefore, in order to open up a second designated player slot through reducing the salary charge of either Gregore or Campana below \$651,250, allocation monies would have to be put to use. The younger Campana had a lower salary. Presumably he was dropped from the third designated spot rather than Gregore because less allocation money was required to bring his salary charge down. However, what is interesting is that Miami had been benefiting from a special MLS rule for designated players aged 21 to 23. Due to Campana's age he qualified, and thereby only \$200,000 was charged against the team's Salary Budget pursuant to this rule. This benefit was lost by removing him from a designated slot, which meant his salary charge was adjusted upwards. Apparently it was more important for Miami to conserve allocation dollars for other roster moves (i.e., because Gregore's salary was higher, more monies would have been needed to bring him down to \$651,250 than with Campana).

That objective - preserving allocation monies - leads to discussion of the next big roster move: signing Jordi Alba, a third elite international. His reported compensation is \$1.6 million, which if accurate is surprising. The Spaniard was a transfer from FC Barcelona who has enjoyed a stellar career, most recently captaining the Spanish team to the UEFA Nations League title. Alba left Barca with one year remaining on his contract and it is believed he is receiving close to \$40 million from his former club in connection with the transfer. That may explain his willingness to take such a dramatic cut in pay at Miami. In any event, his reported salary exceeds the maximum salary charge by approximately \$1 million. As such, since he was not made a designated player, what the club was required to do was apply allocation monies to lower

his Salary Charge to the \$651,250 player cap (or below). A fair question is why he didn't instead become that third designated player, with ownership paying the excess rather than using allocation money. Some cast suspicion on Miami, pointing to its conduct leading to league sanctions when it first joined MLS in 2020. Frankly, because MLS prohibits teams from disclosing allocation money publicly, it is difficult to discern from the outside what actually transpired and why. If Miami applied TAM, rather than GAM, they could only do that if Alba's salary were limited to \$1,612,500, which could explain the reported salary right below that cap. However, what could be more plausible is his salary is higher, but he was not made a designated player in order to utilize a special rule for younger players described below without jeopardizing the availability of a third designated player spot.

MLS Roster Rules provide for "U22 Initiative Slots" whereby a team can have up to three of its first 20 roster spaces occupied by players under the age of 22. As part of its roster maneuvering this summer, Miami acquired the three young players referenced above, all of whom qualify: Paraguayan midfielder Gomez (20); Argentinian winger Farias (20); Argentinian center back Aviles (19). The MLS Rules permit up to three U22 players if the club has a vacant third designated player spot, or such third spot is filled but the player is a "Young Designated Player" (age 23 or younger). Campagna would have met that criterion, but again it seems Miami kept Gregore as a designated player to conserve allocation money. He is older, but another nuance to the U22 rule - the third designated player can be older if his salary is no greater than \$1,651,250.

As Gregore's reported salary is below the threshold, the club was able to sign the three U22 players. Yet, if Alba's salary is only \$1.6 million, he could have been the third designated player. This again suggests his salary could actually be higher.

These three U22 Initiative players are talented, but there probably were added team salary cap considerations as well. This may seem surprising since it has been written that Miami paid approximately \$15 million in transfer fees to acquire them. Yet again, the league's roster regulations drove this move, rather than the actual net cost to ownership. Specifically, U22 players will have a lower Salary Budget Charge (similar to a Young Designated Player, as described above): \$150,000 if aged 20 or younger; \$200,000 if older – even though their actual compensation is higher. MLS Rules do provide their actual salaries may not exceed \$651,250 (unless it is the first contract of a "Homegrown" or "SuperDraft" player, in which case such salary may be up to \$200,000 higher).

This particular rule must have been a key driver in Miami's decision-making. Looking at the overall team budget explains why. MLS's 2023 Salary Budget for the first 20 roster spots is \$5,210,000. Adding Messi, Busquets and Alba, and dropping Pizarro, increased the salary charges under that budget cap by \$651,250 (because they joined the roster later in the season, during the Secondary Transfer Window, their salary charge is half the maximum). Already Gregoire, Campana and likely DeAndre Yedlin were at the maximum salary charge level – amounting to another \$1.95 million. That all amounts to a total of \$2.6 million, taking up 50% of the salary cap, for just 6 players. Whatever Josef Martinez's salary charge turned out to be only adds to that total (see below). Less than half of the Salary Budget remained for approximately two-thirds of the roster.

Allocations monies helped. Miami had \$2,720,000 in TAM for 2023, again limited to players making no more than \$1,651,250 but at least \$651,250. Gregore, Alba, Campana, Yedlin and conceivably Martinez would fall in this category. It is plausible that TAM was sufficient to bring these players down to the Maximum Salary Charge and probably lower, which would

reduce the top 6-7 players' share of the Salary Budget below 50%. There was also GAM. The Club's total for this season is unclear due to the 2020 sanctions. While the club acquired an additional \$1.6 million in one trade, it transferred some away in other deal because it needed more international player slots. Whatever the GAM balance turned out to be, it could be applied across the roster to further alleviate pressure on the team cap.

However the math worked out after applying GAM and TAM, Miami's budget could still have been constrained given how much the salary charges of top 6-7 players still captured of the total. Earlier in the season the MLS Players Association released information showing the league's average salary was up to \$530,262. The club still had a tough needle to thread for its 20-man senior roster. Filling three of those other roster spots with U22 players alleviated the situation due to their reduced salary charges (\$150-200,000) under MLS Rules. Moreover, unlike with older players, for U22 players transfer or loan fees paid by an acquiring club are not included in the calculation of a salary charge. This was important given Miami purportedly paid a total of \$15 million for these players. It should also be noted that if U22 players are subsequently transferred outside the league, under MLS Rules 100% of the proceeds go directly to the club, who can then convert such monies to GAM. So for both current and future budgetary reasons, these were astute acquisitions.

One other constraint on Miami's roster moves was the MLS limitation of 8 international players. With the six international signings described above, and Pizzaro's exit, the club had a net gain of five internationals. That brought its roster total to 10. However, international slots are tradeable and in the course of these transactions Miami acquired additional international roster spots from San Jose and the Los Angeles Galaxy, but at the price of exchanging precious GAM.

One of those international players is Martinez. The 2018 League MVP was acquired from Atlanta United before the current season. His annual compensation reportedly exceeds \$4 million, seemingly creating another budget challenge. However, under the buyout of his contract his former MLS remains responsible for most of his salary. So, it is believed Miami's commitment to Martinez falls within the Maximum Salary Budget Charge.

Suffice it to say the MLS Roster Rules and Regulations are complicated. There have been calls in the past for changes and it is a given those voices will be louder in this offseason. That said, it appears that Miami did a commendable job in managing a significant upgrade of its roster – more than halfway through the season. Bringing in the legendary Messi and his former FC Barcelona teammate Busquets alone would have been an achievement. But recognizing that more was needed for a club mired in the bottom of the standings, much more was done – adding Barcelona's Alba plus three U22 potential stars. Just one player of note had to be jettisoned, Pizzaro, and he had been a disappointment during his time in South Florida. Joining this international star power with the existing foundation of starters Martinez, Gregore and US born Yedlin, overnight the club was transformed into a championship caliber unit. Miami then won the Leagues Cup. Messi missed several matches due to injury and the club did not qualify for the MLS playoffs, but the team will be a force to be reckoned with next season and beyond.

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