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Testimony of Theresa Devine
To the Finance Committee of the New York City Council
Regarding the Madison Square Garden Property Tax Exemption

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Good morning Chairman Weprin and members of the committee. I am Theresa Devine, senior economist with the New York City Independent Budget Office. Thank you for inviting IBO to testify at today's hearing on the Madison Square Garden property tax exemption.

Since 1982, the Garden has been fully exempt from real property tax under a provision of New York State law that effectively only applies to that property. In the current fiscal year this results in a savings for the owners of the Garden of $11 million.

I note that the resolution under consideration today draws heavily upon one of the revenue options included in IBO's annual volume of Budget Options. Just to make it clear, the options in that volume are not recommendations or proposals by IBO. As with any local policy question, IBO does not take a position on whether Madison Square Garden's exemption should be repealed or continued.

What I will to do is discuss the exemption from the perspective of broadly accepted standards of tax policy and equity. My purpose is to help inform legislators and other policymakers who will determine the fate of the exemption.

First, there is broad consensus within the economics field that government subsidies for sports facilities are not an effective use of scarce public resources. There is little evidence that substantial subsidies to a sports facility generate sufficient economic activity that would not have occurred in the absence of the subsidy to return a net fiscal benefit to the city. Of course, this observation applies to all forms of public subsidy for sports facilities, not just the Madison Square Garden exemption.

Now let me turn to more specific observations about the Garden's exemption. One basic premise of good tax policy is that to the extent that economic development incentives are granted, it is preferable that they be generally available to all qualifying firms. This is the case under the city's Industrial and Commercial Incentive Program (ICIP).

The Garden's exemption is the only significant property tax exemption in state law that benefits a single private for-profit firm in the city. Because it is enshrined in state law, it is outside the city's control of economic development policy and therefore is increasingly inconsistent with the city's other benefit programs. Most glaring is the open-ended nature of the benefit. Under ICIP, for example, tax exemption benefits are granted for a limited time, with the duration depending on location and type of development.

With an open-ended benefit, the city continues to face an annual cost even if the conditions that prompted the initial deal have changed. In 1982, the owners of the Garden argued that their costs, including taxes and energy, had grown so high that they threatened their ability to keep the basketball and hockey teams playing there. Today, it is unlikely those conditions remain. With the advent of its own cable TV network, more intensive use of the facility to generate advertising revenue, and construction of new luxury boxes and club seating areas with higher ticket prices, the Garden today is by all accounts a highly profitably enterprise.

An economic development incentive provided through a permanent tax exemption, offers little chance to withdraw the tax benefit when the city is not getting the full economic benefit envisioned. Consider what happened three years ago when the National Hockey League owners locked out the players, forcing the cancellation of the 2004/2005 season. The city lost the fiscal benefit from the spending by teams and fans for over 40 home games. Nevertheless, the full exemption was allowed. Under current law, as long as teams do not play their home games in another venue, the full exemption remains in effect.

Another premise of good tax policy is to avoid favoring one entity over its competitors. The Garden's exemption helps lower its overall cost of operations, but those operations include many events besides basketball and hockey games, such as the circus, ice shows, concerts and trade shows. In many cases there are competing venues in the city for such events, particularly the small trade shows in the rotunda and the concerts held in the Washington Mutual auditorium under the Garden's main hall. Venues competing with the Garden for such events are placed at a competitive disadvantage if they are subject to the property tax.

Of course, the Garden also competes against other sports venues for fans and revenue. In recent years the city—ignoring the argument that sports facilities are a bad investment—has entered into agreements with the Nets, the Mets, and the Yankees to subsidize new facilities for each of those teams. IBO has estimated that the net present value (40 years with discount of 6 percent) of these city subsidies range from $140 million for the Nets arena to $162 million for Yankee Stadium. These deals also include additional state subsidies and federal tax exempt financing. Measured on a comparable basis, the Garden's exemption represents a city subsidy of about $218 million. While the value of the Garden's subsidy from the city is larger, with these other deals, the city has somewhat leveled the playing field in terms of public subsidies for our major league sports teams.

Again, thank you for the invitation to testify and I would be happy to answer any questions.