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Testimony of Ronnie Lowenstein
Before the New York City Council
On the Financing of the Proposed New York Sports and Convention Center

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Thank you for the opportunity to appear before you today. In a few days, IBO will be releasing a new report which analyzes the long-term fiscal costs and benefits of the New York Sports and Convention Center (NYSCC). Today I want to describe our key findings from that report. I will conclude with a few observations on the financing plan, which reportedly diverts dollars that would otherwise flow to the city's general fund.

In this report, as well as in our initial NYSCC report last July, our focus is exclusively on the economic and fiscal impact of the proposed facility. We have not analyzed any of the critical planning, traffic, and other environmental questions associated with the plan.

A key assumption in our analysis is that in addition to serving as a football stadium, the NYSCC would attract convention business. IBO's baseline estimate assumes that 24 convention-type events will be held annually. Attracting at least some of these events to the NYSCC each year is critical if the center is to generate sufficient revenue to cover the debt service expense for the public sector's investment of $600 million—$300 million each from the city and the state.

For this report we have updated IBO's estimate of the annual operating impacts from those in our July report and also added an estimate of the impacts during the four-year construction period. IBO now expects that operation of the NYSCC will generate 3,465 jobs in New York City, yielding an average of $25.5 million in new city tax revenues annually (measured in 2005 dollars), while annual debt service expense is expected to be $22.6 million. (For the city, state, and MTA combined, the annual new tax revenues are expected to average $52 million with combined annual debt service of $45.2 million.) This new revenue forecast is somewhat lower than our July estimate. IBO's estimates of the tax revenue and jobs generated by the facility are substantially less than the Jets' estimates.

We then extended the analysis to cover the entire financing period, allowing us to take a longer-term view of the costs and benefits of the public investment in the NYSCC. To measure the long-term fiscal benefit, one must take into account the time-value of money—the potential returns accruing to a dollar gained today make it worth more than a dollar gained next year. To convert the cash flows projected over the life of the project into a number that accounts for the time-value of money requires the use of a technique known as net present value.

Assuming construction starts in fiscal year 2006 and is financed using 30-year bonds, the net fiscal surplus to the city is $89 million. In other words, the $399 million present value of city tax revenues generated by the NYSCC facility through 2036 exceeds the $310 million present value of city debt service over the same period by $89 million. The city's fiscal surplus is part of a combined city, state, MTA surplus of $202 million. IBO's estimate of the combined public-sector surplus is far short of the $716 million net long-term fiscal surplus claimed by the Jets.

The present value analysis confirms the generally accepted wisdom that—from a pure financial perspective—sports facilities usually are poor public investments. If the NYSCC were to operate only as a stadium, hosting a total of 17 football, soccer and concerts each year, the annual impact on city output would be a only a little more than a third of IBO's baseline projection, leaving the city with a net fiscal loss of $149 million over the length of the financing.

Thus, some level of convention activity in addition to stadium events would be needed to cover the public sector's debt service on the NYSCC facility. IBO's present value analysis indicates that about 15 conventions and meetings each year, in addition to the 17 stadium events, would result in sufficient city revenue to cover the city's debt service over the 31-year term of the financing.

IBO's estimate that there would be a long-term fiscal surplus answers one important question regarding this project: namely, would the NYSCC generate enough new city tax revenue over the term of its financing to cover the debt service costs for the city's $300 million investment. But it does not answer the question of whether the NYSCC offers a better return in terms of jobs and new tax revenues for the city than alternative economic development investments. The public sector is investing $163,500 for each job that will be generated from this project.

I would like to close by discussing a critical issue regarding NYSCC financing and the city's budget process. The Mayor's office has yet to officially describe how it intends to service the debt on the $300 million in city financing. Nevertheless, Deputy Mayor Doctoroff and other administration officials have sketched the broad outline of the plan. Our understanding is that the city intends to divert some of the existing Payments in Lieu of Taxes (PILOTs) that normally flow from the Industrial Development Authority (IDA) into the city's general fund to service the bonds.

Developers using Industrial Development Authority bonds to finance their projects make payments to IDA. After covering IDA's debt service costs and other expenses, the authority sends the balance on to the city. This payment is recorded as part of the city's tax revenue and is expected to be $39.5 million this year. If the city, with the IDA board's approval, were to divert some of the unused payments from the developers to service its share of NYSCC bonds (about $22.6 million each year), then that amount would be removed from the city's tax revenue baseline, annually for the term of the bonds.

The City Council is an integral part of the process for appropriating city revenues. However, under the plan as sketched out by the Bloomberg Administration, it is the IDA board, rather than the City Council acting together with the Mayor that determines how to commit city tax revenues—revenues that are already part of the city's financial plan. The city has worked hard since the fiscal crisis to restore confidence in the accountability and transparency of its budget process. Letting IDA or other off-budget entities commit significant amounts of city tax revenue dollars without going through the budget process undermines that progress.