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West Side Stadium: Touchdown for the City?

Also available...

Methodology for Estimating the Stadium's Economic & Fiscal Impacts

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IBO HAS ANALYZED the economic and fiscal impacts of the proposed New York Sports and Convention Center on Manhattan's far West Side, finding it would generate fewer jobs and less revenue for the city than claimed by the project's proponents. Under IBO's optimistic scenario the facility would create 3,586 jobs—barely half the 6,971 claimed by the project's proponents—and generate $28.4 million in new city tax revenue annually, $6.7 million less than what the project's supporters expect.[1] While this lower tax revenue would still be sufficient to cover the roughly $21 million in annual debt service for the city's $300 million investment in the project, the margin would be somewhat narrower than projected by the Bloomberg Administration.[2]

That narrower margin is hardly risk free. More than two-thirds of the project's economic and fiscal impacts are expected to come from using the facility in ways beyond a traditional stadium. If the convention business projections prove too optimistic, the city could be left with insufficient revenue to cover its entire investment. If the facility attracts half the number of conventions assumed in our optimistic, or baseline, scenario, revenue would drop to $22.9 million—barely more than debt service. Given the New York Jets' assumption that they could recover their investment just from football and other stadium activities, if the convention business proves even more difficult the Jets have little incentive—or agreements compelling them—to continue these operations and provide the city with a chance to at least break even. This newsfax summarizes our findings; details on the methodology and assumptions are available in the background paper on our Web site.

A Stadium Plus? The New York Sports and Convention Center is a centerpiece of the Bloomberg Administration's vision for West Side development. It would sit on a platform over the rail yards stretching from 30th to 33rd Streets between 11th and 12th Avenues. The facility would be the home of the Jets football team and a convention facility complimenting the Jacob K. Javits Convention Center. If the city is awarded the 2012 Olympics the facility would also serve as the main Olympic stadium.[3] Including the cost of the rail yard platform ($375 million) and the retractable roof ($225 million) the total cost of the facility is estimated at $1.4 billion. The Jets have committed $800 million to the project and are looking for the city and state to each contribute $300 million. Relying on an Ernst & Young analysis undertaken on behalf of the Jets, the Bloomberg Administration has argued the facility will generate enough new tax revenues to allow the city and the state to more than break even on their investments.

With its retractable roof, the facility would be a 75,000 seat football stadium and could also serve as an enclosed building providing up to 210,000 square feet of exposition space and

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Annual City Economic and Fiscal Impact of Proposed New York Sports and Convention Center
Dollars in millions

	IBO Stadium Only	IBO Low Estimate	IBO Baseline Estimate	Jets
Event Profile				
Stadium Events (football, soccer, stadium concerts)	17	17	17	17
Expositions	0	10	20	35
Mega Events (Final Four, arena concerts, bowl games)	0	2	2	2
Plenary Events	0	2	2	3
Economic Impact				
Output	$201.2	$428.5	$519.2	$622.9
Earnings	$53.4	$118.0	$144.0	$284.2
Employment	1,179	2,930	3,586	6,971
Fiscal Impact				
City fiscal impact	$9.2	$22.9	$28.4	$35.2
State fiscal impact	$9.9	$20.6	$24.9	$36.3
Metropolitan Commuter Transportation District surcharges	$0.5	$1.0	$1.2	$1.0
Total Fiscal Impact	***$19.6***	***$44.6***	***$54.5***	***$72.5***

SOURCES: IBO, New York Jets.
NOTES: Jets' fiscal impact figures restated to separate Metropolitan Commuter Transportation District sales tax surcharge revenues from city sales taxes. Before restatement, Jets' total "local taxes" impact estimate is $36.2 million.

meeting rooms. Seating sections could also be moved to create an arena configuration with capacity for 45,000.

These features would allow the facility to be used beyond the 17 stadium events expected each year by the Jets (10 home football games plus seven other events including college football games and stadium concerts). The Jets expect that the facility will host two "mega" events per year using either the stadium or arena configuration, such as the National College Athletic Association Final Four, college football bowl games, and national political conventions. The arena configuration could also be used for the plenary sessions of large conventions that would be hosted at the Javits center. The Jets assume that the new facility's capacity to host plenary sessions would allow the city to attract three such meetings each year that currently cannot be hosted here.

Finally, with 180,000 square feet of exhibition space and 30,000 square feet of meeting rooms, the new facility would be able to host small and mid-size shows that cannot be accommodated at the much larger Javits center.[4] At times, the facility's exhibition space would also serve as additional space for conventions meeting at Javits and the two facilities would be connected by an underground passageway. Although the Jets expect the facility to attract about 35 such events each year, IBO's analysis of the extremely competitive convention market produced an optimistic estimate of 20 such events each year. One factor in the lower estimate is the overlap of the prime fall convention season with the football season. The Jets have received a commitment from the National Football League to provide a more predictable schedule for the team during the prime convention season from mid-September through mid-November. Remaining uncertainty may still make it difficult to book many multi-day events during the rest of the football season.

Economic and Fiscal Impact. In analyzing the economic and fiscal impact of the new facility, IBO used the same definitions for the types of events that would occur there as in the study commissioned by the Jets, although we used different tools to estimate how much economic activity would be induced elsewhere in the economy.

Economic Impact. Assuming the sports and convention center would attract 20 exposition events, two mega events, two plenary sessions, and 17 stadium events each year, IBO estimated that the annual direct economic output—the value of goods and services purchased by visitors at the facility and elsewhere in the city during their stay—would be $306 million; the Jets estimated $411 million in direct annual output. Differences in per visitor spending patterns—some IBO estimates are higher, some lower—and the number of expected exposition events account for much of the difference. In addition, IBO identified only the local valued-added on retail sales as new output, while the Jets' study included the full sales price in local output. Adding in the indirect economic output—additional economic activity generated by the direct output flowing through the city's economy—brings IBO's estimate of the total economic output to $519 million, which is 17 percent lower than the Jets' study.

IBO also estimates that the number of jobs spurred by the facility would be much less than the Jets' projection, as would new earnings. Our estimate of the total employment impact—including both direct and indirect effects—is 3,586 jobs, which is only a little more than half the Jets' estimate of 6,971 newly created jobs. The sectors showing the largest employment increases are food services (1,434 jobs), recreation (575 jobs) and lodging (547 jobs). IBO estimates that the new jobs will bring a total of about $144 million in annual new earnings; this again is well below the Jets' estimate of $284 million. And because IBO expects that about 20 percent of the new jobs would be held by people who live outside the five boroughs, $86 million of the earnings would go to local residents.

As University of Texas Professor Heywood T. Sanders has made clear in studies such as *Convention Myths and Markets: A Critical Review of Convention Center Feasibility Studies,* estimating the demand for convention center space is highly speculative. Jobs and earnings at the West Side facility would fall considerably if the convention activity failed to meet expectations. For example, if convention activity is 10 expositions per year then total direct and indirect output would fall to $429 million and the employment impact would be 2,930. The increase in earnings would be $118 million.

Fiscal Impact. Assuming the facility succeeds in attracting 20 exhibitions each year and using the corresponding estimates of direct and indirect economic impacts, IBO projected a city annual fiscal impact of $28.4 million in new tax revenue attributable to operation of the proposed facility, $6.7 million less than the Jets' estimate of $35.1 million. Reflecting the importance of visitor spending, IBO estimates that the city's sales tax ($13.7 million) and hotel tax ($4.1 million) would together account for almost two-thirds of the new revenue.[5] City business income taxes would add about $3.0 million. IBO's sales tax figure is close to the Jets' estimate, but our hotel and business tax figures are considerably higher. However, IBO's estimates of the personal income tax ($2.9 million) and property tax ($3.2 million) revenue resulting from the proposed West Side stadium are much lower than those of the Jets. This is due not only to IBO's smaller employment and earnings estimates, but also to the adjustments IBO makes for residency: IBO estimates that about one-fifth of the new jobs and two-fifths of the new earnings generated by the facility will go to people living outside the city.[6] Nonresident earnings are subject to state—but not city—income taxation, and they exercise relatively little influence on the value of New York City real estate.

IBO's $24.9 million estimate of new *state* tax revenue falls $11.4 million short of the Jets' figure. The state has no property tax revenue, but it would generate substantially more personal income tax revenue than the city because it is able to tax nonresidents, including football players. IBO also estimates $1.2 million in new Metropolitan Transportation Authority (MTA) revenues from the MTA's excise and business income tax surcharges.

Costs versus Benefits. The Bloomberg Administration has used a simple breakeven analysis that compares the Jets' $35.1 million estimate in new city revenue with the city's estimated annual $21 million debt service costs.[7] To date, there has been no public announcement of what revenue stream would be tapped to pay the debt service. Although using general fund revenue remains a possibility, particularly during the construction phase, the Bloomberg Administration has mentioned the possibility of redirecting some existing payments in lieu of taxes or incremental revenue linked to the new facility as potential funding sources. In both cases these would likely result in somewhat higher borrowing costs, which would further reduce the margin. In the latter case, it would also be necessary to obtain city and state legislative approval to redirect the incremental tax revenue from the general fund to the project's debt service account.

Other Considerations. A decision to build the stadium and convention complex involves more than a simple comparison of anticipated revenue with the annual debt service costs; it does not necessarily have to pay for itself to be a good use of public funds. Moreover, there are urban planning and budget process issues to be considered. IBO has focused on the fiscal issues, and the proposal to subsidize the facility with public funds creates some risk for the city's budget. It is also important to consider the possible alternative uses of the city resources being committed to the project and whether this proposal maximizes the return to the MTA for the value of the air rights over the rail yards owned by the agency.

Fiscal Risk to the City. The Jets and the Bloomberg Administration have publicly acknowledged that if the new facility were operated only as a football stadium, it would not generate sufficient tax revenue to justify the public investment. IBO's estimate is that a stadium-only operation would yield just 1,179 jobs and $9.2 million in new tax revenue, less than half the annual debt service costs.

Project proponents depend on the other uses of the facility to produce enough tax revenue to justify the use of public subsidies. At the same time, the Jets have indicated that they believe they can at least break even on their $800 million investment from stadium operations alone. If the convention business proves more difficult than anticipated—a conceivable outcome given the number of new facilities planned or under construction across the country—there does not appear to be any requirement that the Jets continue with this ancillary business. If the Jets faced mounting losses from convention operations, their private interest would dictate withdrawing from the business, leaving the city with insufficient revenue to cover the city's debt service costs.

Alternatively, a weaker than anticipated convention/exposition market could force the Jets to cut prices to capture business from other facilities in the city, including Madison Square Garden (concerts and small expositions), existing large hotels (small conventions and expositions), as well as the Javits center. Although the Bloomberg Administration has argued that the Javits and sports and convention centers will be cooperative partners in a new "convention corridor," they will operate under separate managements. It seems unreasonable to assume that their business needs will never clash. If softer than anticipated market conditions lead to increased local competition, the net economic and fiscal impact of the new stadium complex would be reduced by any output lost from other facilities in the city.[8]

Opportunity Costs. Economists refer to consideration of what might result from alternative uses of resources—in this case the city's annual debt service payments and the market value of the development rights over the rail yards to the MTA—as the opportunity costs of an investment. While a thorough computation of the potential benefits of plausible alternatives is not always possible, it is useful to acknowledge in broad terms the trade-offs being made.

In the context of the city's $5.9 billion city-financed capital budget for 2004, $300 million is a relatively modest sum. But alternative uses of these resources could easily yield higher returns. For example, for projects involving discretionary tax benefits, the city routinely claims a rate of return which is higher than the 1.6 estimated by the Jets ($34.5 million/ $21 million). The city's return could grow if New York is selected for the 2012 Olympics.

For the MTA the project poses not just an opportunity cost but a potential loss of revenue—and a hidden cost of the project. The cash-strapped agency would be giving up the chance to sell what may become lucrative air rights for the site. Of course, these air rights are essentially zero unless a platform—estimated cost of $375 million—is built. The Jets propose making a lease payment to the MTA for the right to build the new facility, although the team and the Bloomberg Administration contend that the value of the lease rights is fairly low. While this may be true today, the development potential of the rail yards will presumably increase if plans for the rest of the Hudson Yards area come to fruition. Even after allowing for the cost of erecting a platform, developers may see the portion of the yards where the stadium is now proposed as increasingly viable and be willing to pay substantially for the right to build there.

Written by George Sweeting

END NOTES

[1] The Jets and the city claim $36.2 million in new "local" revenues and $36.3 million in new state revenues. The local revenue includes $1.0 million in sales tax surcharges collected in the Metropolitan Commuter Transportation District (New York City plus Nassau, Suffolk, Westchester, Rockland, and Putnam counties), which flow to the Metropolitan Transportation Authority rather than the city. In this report we have kept these revenues separate. Reported city revenue only includes New York City general fund revenues.

[2] IBO's output, earnings, and tax revenue numbers are pegged to the projected 2009 opening of the stadium; these numbers would rise in subsequent years due to economic growth and inflation. However, the debt service for the city's investment would change by little, if at all. Therefore, over time the margin would likely grow, assuming the facility continues to host a sufficient number of events.

[3]The facility would be designed to accommodate a temporary expansion to Olympic dimensions if needed. The financing for such alteration is included in the city's Olympic plan rather than the $1.4 billion cost financed in the current proposal. Note also that the frequently used drawing of the stadium viewed from the Hudson River showing a park on a bridge above Route 9A reflects the configuration after the Olympics. The cost of the bridge and park are not included in the $1.4 billion plan.

[4] The Javits center currently has 760,000 square feet of exhibition space plus 30,000 square feet of meeting room space. The planned expansion of Javits would bring its capacity up to 1.3 million square feet.

[5] The sales tax estimate reflects the restored clothing tax exemption, which will affect most of the apparel sales to visitors inside and outside the stadium. Note, however, that retail sales would account for a relatively small portion of total visitor spending, most of which would go to tickets, lodging, and meals.

[6] This adjustment is based on existing patterns of residency and earnings for employees in New York City industries.

[7] Although not stated, it appears that the city estimated this figure using current interest rates for 30-year general obligation bonds.

[8] The direct fiscal impact of diverting events from Madison Square Garden to the new facility is limited due to the arena's property tax exemption.