



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 • EMAIL: ibo@ibo.nyc.ny.us
<http://www.ibo.nyc.ny.us>

Testimony
of George Sweeting, Deputy Director
Before the New York State Senate Standing Committee
Corporations, Authorities and Commissions

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Good afternoon Chairman Perkins and other members of the Committee. I am George Sweeting, deputy director of the New York City Independent Budget Office. Thank you for the invitation to appear at this hearing. IBO is a nonpartisan, independent city agency. We provide analysis and information on budget, fiscal, and economic issues confronting the city. Consistent with our nonpartisan status, we do not make policy recommendations. Thus, in my testimony today I will present our current estimates of the costs of some of the public subsidies being provided to the Atlantic Yards project, but these should not be taken as either an endorsement or a condemnation of the project.

Nearly four years ago, at the request of several elected officials, IBO published a report on the project. Since that time we have returned only sporadically to the challenge of analyzing the Atlantic Yards project, the major components of which have repeatedly changed. Although I will be discussing some new estimates today, our office has not undertaken a full updating of our previous analysis of the project. In our initial report, we focused most of the analysis on the arena alone, in part because other aspects of the project were still evolving, and in part because most of the special benefits being offered to Forest City/Ratner Corporation (FCRC) were targeted at the arena. The housing and commercial parts of the project relied much more on "as-of-right" programs that would be available to other developers at Atlantic Yards and in many other areas of the city.

IBO's 2005 report concluded that the arena alone would generate a modest net positive fiscal impact for the city of about \$25 million net present value over 30 years. Adding in the state and the Metropolitan Transportation Authority brought the total New York net benefit to approximately \$100 million. These results seemingly run counter to the standard critique against public investment in sports facilities. The positive result in this case is largely due to the assumption that a significant number of current New Jersey resident fans of the Nets would travel to Brooklyn to see the team, thus bringing new economic activity to the city. IBO has not updated its analysis of the economic activity that would be generated by the arena.

In the intervening years the plans for the arena and the larger project have undergone substantial changes, in some cases altering key assumptions in our fiscal impact analysis. IBO's more recent experience reviewing the two baseball stadiums has also led us to improved methodologies for estimating the cost of some of the subsidies involved. Let me highlight a few of the changes:

1. The city's capital contribution has grown from \$100 million to \$205 million. Although some of this contribution is going for infrastructure work such as sewers and street improvements that

provide benefits outside the Atlantic Yards project, much of this money is directly targeted at site acquisition and development costs and infrastructure investments necessitated by the project. IBO's estimate of the present value of the cost to the city to finance this contribution has nearly doubled from \$101 million to \$191 million. This change alone therefore eclipses the \$25 million net positive benefit to the city that we previously estimated for the arena.

2. The cost of the arena has reportedly grown to nearly \$1 billion. At the time of our 2005 study the estimate was \$555 million. With the increased cost of the arena, the cost to the public sector of allowing FCRC to use tax-exempt bonds to finance construction has also increased. According to press reports, Forest City is now looking to save money by simplifying the architecture and using less costly materials. It is not clear how successful this effort will be, but in order to estimate the current cost of the tax-exempt financing we have assumed that the final cost of the arena will be \$850 million. At that price and the current interest rate environment, IBO estimates that the public-sector cost in foregone tax revenue from the bondholders would be \$200 million, with \$193 million of that borne by federal taxpayers. The city cost would be about \$1.5 million. FCRC's savings would amount to \$191 million.
3. The higher arena cost also results in larger city and state costs for the exemptions from the mortgage recording tax and the sales tax that were granted by the Empire State Development Corporation for this project. For the city the combined cost is now \$24 million, roughly double our original estimate.

One aspect of the project's financing has become clearer, subject to one important condition. Last year, the city and state succeeded in persuading the federal government to allow the use of an aggressive interpretation of Internal Revenue Service regulations that will make it possible to use tax exempt bonds for most, if not all, of the construction costs of the arena. This interpretation, which was also used for the city's two new baseball stadiums, has been prohibited going forward, but its use at Atlantic Yards was "grandfathered" —providing construction starts by the end of this year.

Relying on this interpretation also depends on the city's finance department assigning a property tax assessment to the arena which results in a payment in lieu of taxes—supposedly equivalent to a regular property tax bill—large enough to cover the annual debt service. This assessment process for Yankee Stadium proved quite controversial, with the city's assessment higher than those of several independent appraisers, and the process may prove controversial again at Atlantic Yards. In the case of the Yankees and Mets stadiums, the department indicated what the assessments would be prior to the start of construction. No similar announcement has been made for Atlantic Yards, but it is notable that the land assessments for the parcels under the arena have more than tripled in the last three years.

Thank you for this opportunity to appear before the committee, and I would be happy to answer your questions.