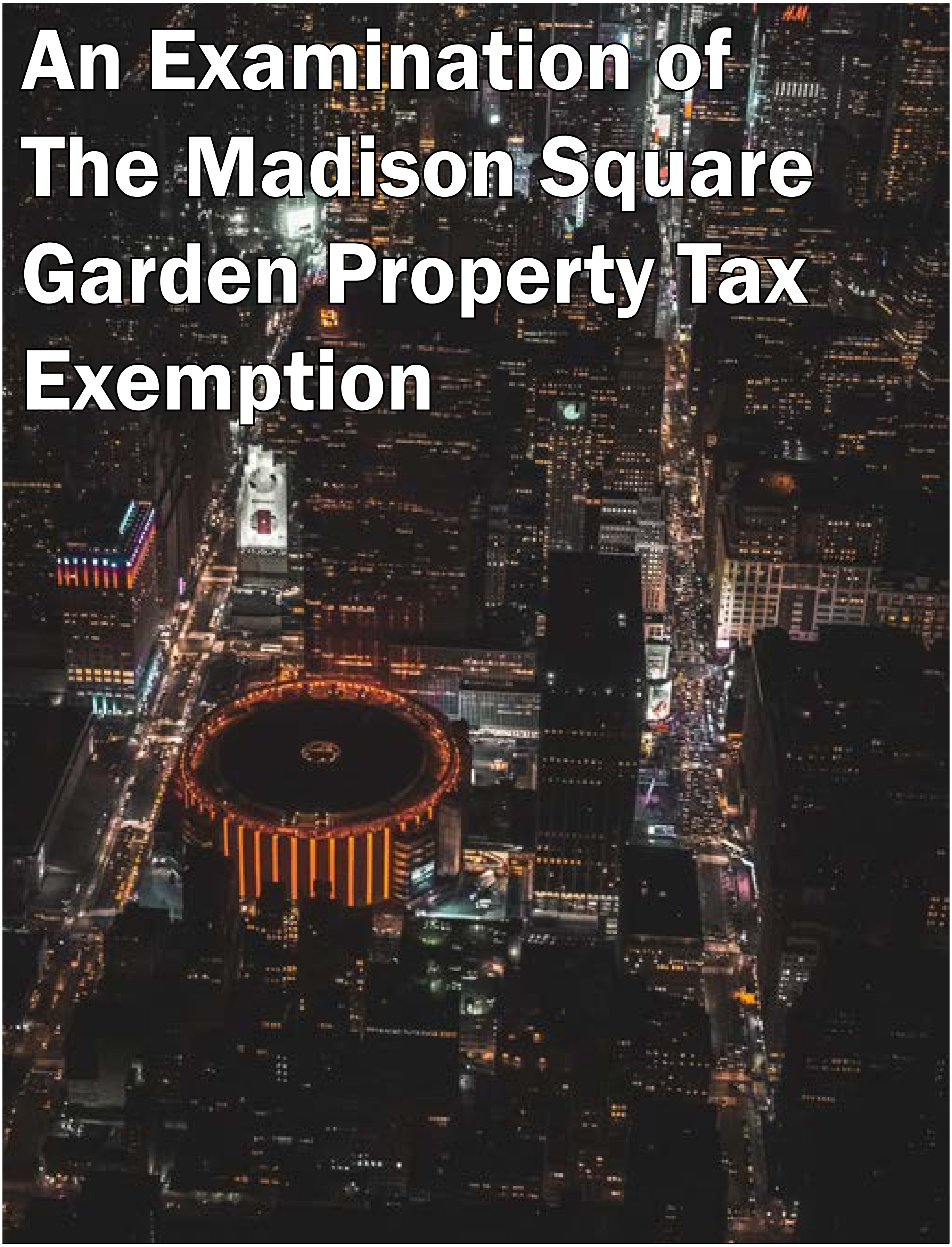
An Examination of The Madison Square Garden Property Tax Exemption



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Summary & Acknowledgments

Madison Square Garden (MSG) is the city's oldest operating professional sports arena and the only major league sports facility located in Manhattan, sitting directly above Penn Station, the busiest transit hub in North America. The MSG arena opened at its current location in 1968 and hosts two professional teams—the New York Knicks and the New York Rangers. As a private property, the arena paid property taxes until the 1982 New York State Legislature exempted MSG indefinitely. This exemption was contingent on MSG continuing to host home games for both a professional basketball and hockey team, with the goal of incentivizing the Knicks and Rangers to not relocate outside of the city.

This report reviews the MSG real property tax exemption, examining the history of the tax exemption and its relevance today. IBO also discusses to what extent MSG's property tax exemption aligns with the city's economic development goals and best practices for economic development tax expenditures. It is the third report produced by IBO under the terms of Local Law 18 passed by the City Council in 2017, which turned to IBO to issue periodic evaluations of the city's economic development tax expenditure programs. The decision to examine the MSG property tax Exemption was made collaboratively with the City Council.

Among our key findings:

- In 2023, Department of Finance (DOF) estimated the value of the MSG tax exemption at $42.4 million. Since the property tax exemption took effect, MSG has been exempted from paying more than $946.7 million in property taxes, as measured in 2023 dollars.
- Knowing that no property taxes would be collected, the Department of Finance does not devote extensive resources to estimating the value of the arena. IBO views DOF's current valuation of MSG as a conservative estimate of the foregone revenue.
- In general, MSG's property tax exemption does not align with best practices for the design of economic development tax expenditures. MSG ownership is not required to report any data—such as number of jobs created and wages paid—to any government agency as a condition of its property tax exemption, making it is impossible to evaluate the impact that the expenditure has had on MSG as an employer. There is no legally mandated review period or sunset date to provide oversight to track the necessity and effectiveness of the exemption over time.
- There is consensus in the field of public economics that substantial government subsidies for sports facilities are typically not an efficient use of scarce public resources.
- MSG's tax expenditure does not align with stated city economic development policy which focuses on economic development in Upper Manhattan and boroughs outside of Manhattan.

IBO concludes that it is unlikely that the property tax exemption for MSG is the determining factor for the Knicks and Rangers maintaining their location in New York City. Potential relocation options for the Knicks and Rangers are limited by current market saturation within the leagues and the economic benefits of MSG's current location (which affect ticket and broadcasting revenues for the stadium) are strong.

In preparing this report, IBO coordinated with the City Council Finance Committee, chaired by Council Member Justin Brannan, and the staff of the Council Finance Division, in particular Raymond Majewski, Emre Edev, and Hector German. We appreciate their assistance. This report was prepared by Alaina Turnquist and supervised by Sarah Stefanski, with publication production by Tara V. Swanson.

Glossary

As-of-Right Versus Discretionary Public Benefits: Economic development benefits can be provided on an as-of-right basis or a discretionary basis.

A benefit is *as-of-right* if the project or business can qualify for it automatically by meeting a set of criteria.

Discretionary benefits, in contrast, may have eligibility criteria and conditions, but beyond a project or business meeting the requirements, the decision to award the benefits is still optional.

Tax Expenditure: Tax expenditures are revenue losses that result from special carve-outs in tax law. Examples of these include exemptions, deductions, special credits, preferential tax rates, abatements, or a deferral of tax liability. Although tax expenditures do not appear as planned spending in the city's budget, they represent an intentional (and ideally strategic) foregoing of revenue, and thus can be considered as functionally the same as an expense. These tax expenditures are often viewed as an alternative mechanism to direct spending or regulatory programs that can be employed to achieve policy goals. Thus, the tax (roughly $42 million annually) that MSG is not required to pay because of its exemption can be viewed as a form of government spending on the arena.

Madison Square Garden Arena Special Permit: The MSG arena is currently located between 7th and 8th Avenues between West 33rd and West 31st Streets, located directly above Penn Station. This arena, the fourth location of MSG within New York City, opened in 1968. MSG is zoned as-of-right as a Commercial District (C6-4) and within the Special Hudson Yards District, which allows the arena to operate at a capacity of up to 2,500 seats. MSG currently can seat around 19,800 for sporting events in the main arena as well as 5,500 in an adjacent theater space. To operate these spaces, the owner of MSG must seek a zoning special permit from the city. This process is separate from the Real Property Tax exemption that is granted by state law.

The first arena special permit was issued in 1963 for a term of 50 years, expiring in 2013. The City Council chose to renew the permit in 2013 but restricted it to a length of 10 years, leading to the current expiration in July 2023. Considerations for granting this type of permit mainly concern the area's street traffic capacity. For the 2013 permit, however, the City Planning Commission wrote that "the Commission, like the Council, believes that the preferred result would be for MSG to relocate to another site," which would expand the types of underground improvements that could be made to the train station, as well as the construction and design of station entrance ways.

Within the past 10 years, MSG has not publicly announced any formal or potential plans to move; it is now seeking a renewal of the permit to continue operations at the present location indefinitely. The 2023 permit renewal application coincides with a zoning text amendment proposal to add additional criteria for the permit, largely requiring that the arena be deemed compatible with existing transit facilities and provides adequate pedestrian flow. The railroads served by Penn Station have stated that the present configuration of MSG is not compatible with the train station. The City Planning Commission and City Council can negotiate the terms of the permit and limit its duration.

1. Introduction

The Madison Square Garden (MSG) arena is exempt from property taxes on an annual basis, and this exemption applies in perpetuity unless repealed from state law.[1] The MSG tax expenditure is the only as-of-right exemption in the Real Property Tax Law explicitly designed to benefit a specific and singular for-profit entity.[2] The exemption has cost the city more than $946.7 million (adjusted for inflation) since it was granted in 1982, with an annual expenditure of roughly $42.4 million in fiscal year 2023.[3] However, this expenditure calculation is based on the city's Department of Finance (DOF) valuation and, as detailed below, may not be a true representation of what the city would collect if the arena was made subject to property taxes through repeal of the state law.

While other stadiums within New York City have been built under public land leases with expiration dates tied to a timeframe established for paying off the stadium's construction debt, MSG's property tax exemption exists in perpetuity unless repealed by Albany.[4] Because MSG is a privately owned and financed arena, located on private property, it is subject to the applicable city zoning laws. MSG's zoning does not as-of-right allow for events above 2,500 people—to operate the larger arena, MSG must have a special permit from the city. The permit has been renewed once since 1963 and is up for another renewal in July 2023. The City Planning Commission and City Council can decide to approve or reject the renewal and negotiate any associated terms for the permit, a decision process that is separate from the property tax exemption, which is controlled at the state level.

The Independent Budget Office produced this report on the MSG property tax exemption under the terms of Local Law 18 passed by the City Council in 2017 that requires IBO to issue evaluations of New York City economic development tax expenditures. The tax expenditure studied in each evaluation is determined collaboratively with the City Council. The law calls for IBO to evaluate the effectiveness of the tax expenditure in achieving its goals, the relevance of such goals going forward, and how well those goals align with current economic development policy.

This report begins by describing the history and intent behind granting the real property tax exemption for the arena, followed by an analysis on the value of this tax break to date and the challenges in determining that value. IBO then examines the effectiveness of MSG's tax exemption in meeting its intended goal and how this tax expenditure aligns with best practices for economic development programs. The report concludes with a discussion on the relevance of the property tax exemption going forward and recommendations.

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2. History and Original Intent of the MSG Property Tax Exemption

Concern About Losing Sports Teams from New York City. Prior events combined to give the owners of MSG unique leverage for the passage of legislation exempting it from property tax liability in 1982. In the wake of the 1970s fiscal crisis, high levels of crime, and a declining urban population, Mayor Koch's administration was eager to remain friendly with the business community and to provide government subsidies to keep businesses from leaving the city. Additionally, public concern pervaded in the wake of the city's loss of multiple sports franchises, as several teams departed during the preceding decades.

In 1957 the Brooklyn Dodgers and the New York Giants baseball teams left the city, moving to Los Angeles and San Francisco, respectively. The West Coast was an expanding market for professional sports teams at this time, and both Los Angeles and San Francisco offered stadium sites as part of a relocation deal.

Additionally, the New York Giants football team moved to the Meadowlands Sports Complex in nearby East Rutherford, New Jersey in 1976.[5] As an added pressure at the time, the New York Jets football team was also publicly entertaining a move to play in New Jersey. When the team's stadium lease expired in 1983, the Jets left Shea Stadium in Queens, which they shared with the New York Mets baseball team, to share the Meadowlands stadium with the Giants in New Jersey.

Negotiating a Tax Exemption and Other Benefits for MSG. With this context, Gulf and Western Industries (G+W), which owned both MSG arena and the associated New York Knicks basketball and New York Rangers hockey franchises at the time, claimed that without government subsidy, the costs of keeping the teams in New York City were unsustainably high and would force a move outside of the city. G+W specifically claimed escalating labor, taxation, inflation, and energy costs were the primary drivers of a potential move. (As a privately owned commercial property, MSG's owners paid paying property taxes to the city at that time.) MSG ownership publicly considered relocating the Rangers and Knicks also to the Meadowlands Sports Complex in New Jersey.

In the face of the threats from G+W to move the franchises in the absence of any government financial support, Mayor Koch agreed to enter negotiations to seek the teams' commitment to stay in the city. These negotiations resulted in a package of benefits to MSG addressing the three main costs G+W cited—taxes, labor, and energy. Legislation to provide MSG full property tax exemption and discounted energy costs was proposed at the state level, with mayoral support. The state legislation required Consolidated Edison (ConEd) to provide electricity at a discounted rate set by the New York Power Authority. ConEd was then authorized to adjust general utility bills to recoup the discounted price for MSG. This discounted energy arrangement lasted for about 30 years, ending not through the repeal of the 1982 state law authorizing the energy discount, but due to a technicality related to how the discounted rate was set.[6] Outside of the legislative process, union concessions were agreed upon to defray labor costs, although the details of those agreements were not made public.

Original Goal and Intent of MSG Tax Expenditure. The goal of the MSG tax expenditure at the time of its passage in 1982 was to ensure that the New York Rangers and New York Knicks remained in New York City. IBO has identified several sources that discussed the purpose of the exemption including the legislative intent language in the original 1982 legislation and its accompanying documents, and a home rule message and a letter of support for the tax expenditure from Mayor Koch.[7] Additionally, the city's DOF Annual Tax Expenditure Report includes DOF's description of the tax expenditure's purpose and annually updates the value of MSG's tax expenditure.[8]

The documents accompanying the original legislation identify several justifications for keeping MSG's teams within New York City. Legislators viewed keeping the Rangers and Knicks within the city as necessary for the "general and economic welfare" of the state and city. The legislative intent declared MSG's teams an "invaluable recreational resource" which "promote[s] civil pride and community cohesiveness."[9] Many legislators viewed the teams as important for attracting visitors to the city and the revitalization of the area surrounding the arena, and claimed the teams generated "substantial state and local revenue."[10]

Some elected officials objected to the legislation, disputing MSG's claims that the teams would be unsustainable within the city due to property taxes. According to press reporting at the time, "several legislators attacked the proposal as giving up too much to the Garden," labeling it "welfare for the rich." Others felt MSG's threats to leave amounted to "blackmail".[11] News coverage at the time noted that many "City politicians [were] wary about helping a commercial enterprise while they must scrimp on basics like police, fire, and sanitation services" following the city financial crisis that had almost led to municipal bankruptcy just a few years earlier.[12]

In a memo to the Senate Committee on Rules regarding the legislation, the state's Division of Equalization and Assessment, which reviews legislation related to property taxation, expressed skepticism towards the proposed exemption. The division also raised concerns of state constitutionality. The memo stated that MSG ownership would "allegedly" be forced to move the teams because of property taxes and noted that "considerable media attention [has been] paid to these two teams moving their franchises from New York City".[13]

Contradicting this media and legislator skepticism, MSG ownership claimed—without producing proof—that it was absorbing millions of dollars in losses a year, and that as a part of concessions granted to keep the teams in the city, G+W, the parent company of MSG, would agree to accept a $3 million operating loss annually.[14] While MSG ownership did not publicly provide documentation to support its claim of operating losses, many legislators, as well as the city's mayor, ultimately accepted the legitimacy of such claims.

Mayor Koch agreed to the exemption and provided support for it in a home rule message, and the legislation passed in July 1982. In later statements, Mayor Koch indicated he did not understand at the time that the exemption was in perpetuity, but instead thought the city had agreed to a 10-year exemption.[15]

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3. Value of Tax Expenditure Over Time and Assessment Challenges

Measuring the Tax Expenditure Cost Over Time. As of June 2023, DOF assessed the fair market value for MSG at $909.3 million, which yields a potential property tax liability of $42.4 million, from which the arena is exempted. Since the property tax exemption took effect, MSG has been exempted from paying more than $946.7 million in property taxes as measured in 2023 dollars. The value of MSG's tax expenditure increased substantially in fiscal year 2015, reflecting the completion of an approximate $1.2 billion renovation (again, adjusted to 2023 dollars) finished in fiscal year 2014.

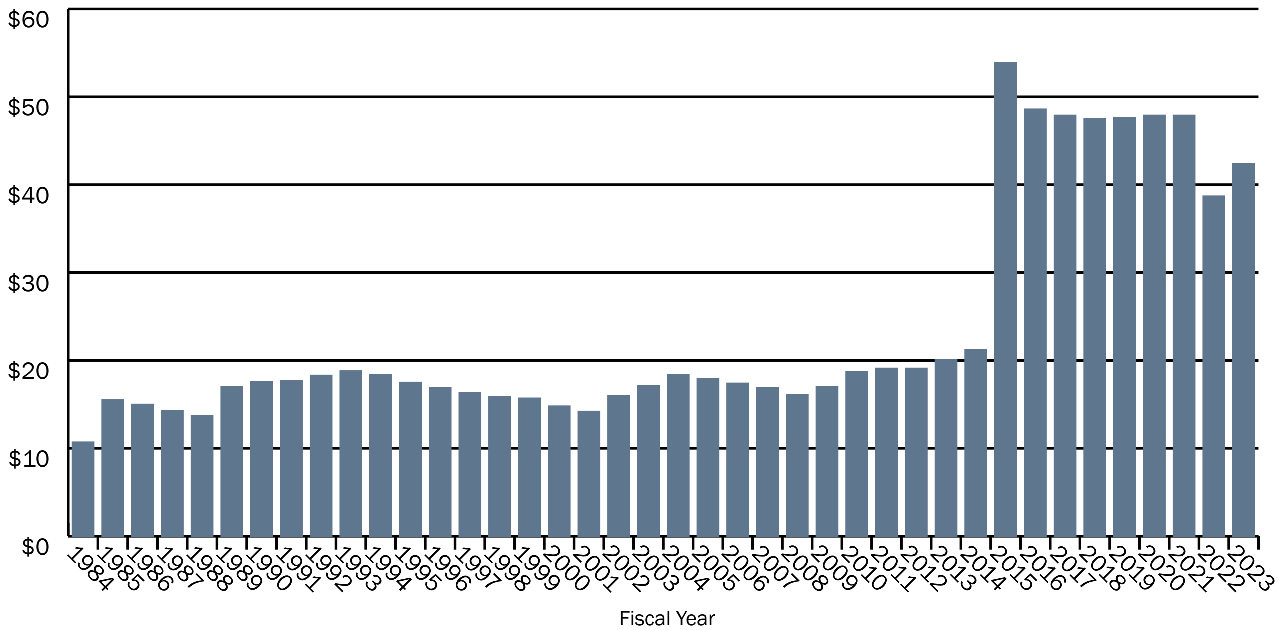
To measure the value of the MSG tax expenditure over time, IBO compiled previous assessed exempt values from fiscal years 1984 to 2022 and applied corresponding property tax rates for each year for Class 4 commercial properties. Because IBO only has parcel-level property tax information going back to 1984, the $946.7 million expenditure estimate dates back to 1984 and not to 1982. The annual property tax amount was then adjusted for inflation using the Consumer Price Index for the New York-Newark-Jersey City area published by the Bureau of Labor Statistics, and then summed to find the total value of the tax expenditure over time.

Finance Department Values MSG as Specialty Property. Under the New York City Administrative Code Chapter 2, § 11-207, DOF is required to have assessors examine each taxable parcel of land every third assessment cycle; for non-taxable parcels of land, the requirement is every fifth assessment cycle. Examinations require external review of the property but typically do not involve entering any interior areas of the property. Interior reviews, known as field inspections, are usually only completed in conjunction with improvements permitted through the Department of Buildings. From the sample of properties that receive the assessment, DOF generates rates to adjust the values for similar properties that did not receive an assessment that year. Owners can appeal the assessment of an individual property if they believe it to be inaccurate.

To understand the city's valuation and assessment process for MSG, DOF provided IBO with the date and description of all past assessments of stadium properties in the city—MSG, Yankee Stadium, Citi Field, and Barclays Center—as well as description of the methodology used for assessing these properties.

According to DOF, because sports arenas are considered specialty properties, they are valued differently than other types of commercial properties within the city. Many commercial

Madison Square Garden Tax Expenditure Cost to the City Over Time
2023 dollars in millions



SOURCE: Department of Finance Market Values & Assessments

New York City Independent Budget Office

properties, such as office buildings, are taxed based on reported operating income and expenses, which typically relies on the leasing of the space.[16] In contrast, DOF considers the operating income of MSG (and other arenas) as related to the business of operating sports teams and events rather than income generated by the real estate itself. Because of this specialty status, DOF considers the cost approach to be the best approach to valuing MSG. The cost approach consists of replacement cost, depreciation, and land value.[17]

Valuation of MSG Arena. IBO views DOF's current valuation of MSG as generating a conservative estimate of the foregone revenue. DOF last completed an interior field inspection of MSG in 2013, to reflect changes from a major renovation of the arena. This resulted in a 154 percent increase in the property value in real dollars. Recent reporting has indicated that MSG's Hulu Theater now has the potential to sell for $1 billion. While the city's property assessments cannot and do not base value on previous on potential sale prices, the potential sale of a small piece of the MSG property for a price higher than DOF's valuation for the property as a whole suggests that the current fair market value as calculated through DOF's cost approach formula is low.

If MSG were to become liable for property taxes, the property owners could appeal the assessed value and argue for its reduction. This has been done for stadium properties elsewhere in the United States. Successful appeals have often relied on the argument of functional obsolescence—a reduction in the stadium's usefulness or desirability due to outdated design features when compared to other stadiums. In a particularly striking example, in 2020, Bank of America Stadium in Charlotte, NC challenged the tax assessment and successfully reduced it by nearly two-thirds. If MSG were to pay property taxes, the

Cost Approach Formula

(Replacement Cost of Building − Depreciation of Building) + Cost of Land = Value of Stadium owners would likely challenge DOF's valuation, given that MSG is the oldest major league stadium in New York City, when compared to design and amenities of other newer stadiums.

Valuation of MSG Not Comparable to Other Stadiums Within New York City. A logical place to look to determine the value of a sports stadium in New York City would be to examine the fair market values set for other major league sports venues in the city: Barclays Center, Citi Field, and Yankee Stadium. In a recent analysis, however, IBO identified issues with the comparing the valuation of other stadium properties within the city with MSG. Barclays Center, Citi Field, and Yankee Stadium are all built on public land, and therefore do not pay property taxes. The stadiums, however, rely on an approximation of their property tax liability to the city to make payments in lieu of taxes (PILOTs) that, rather than flow to the city as a replacement for property taxes, go towards paying down the stadiums' construction debt. The property tax assessment set by DOF is meant to approximate the stadium's property tax value. The assessment, however, must also yield a PILOT amount large enough to cover the annual debt service on each stadium's bonds. In this way, the fair market value and the PILOT amounts are linked. At the time of Yankee Stadium's financing, vacant land in Manhattan was used to baseline the value of the vacant park land where the stadium was built in the Bronx. Because Yankee Stadium, Citi Field, and Barclays Center are assessed in a way that is tied to their debt obligations, and MSG is not, MSG's assessed value from DOF cannot be considered comparable with other stadiums in New York City.

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4. Evaluating the Effectiveness of the MSG Tax Expenditure

Answering the "But For" Question Necessary for Evaluating Economic Development Incentives. The effectiveness of an economic development incentive, here a property tax exemption, depends on the "but for" question—would the economic activity not have occurred "but for" the financial benefit the expenditure provided? In other words, would the Knicks and Rangers have remained in New York City if the property tax exemption had never been granted?[18]

Major league professional sports teams rely on ticket sales, the sale of broadcasting rights, and media deals as their primary sources of revenue. The current location of MSG, in Midtown Manhattan and directly above Penn Station, creates optimal conditions for revenue generation that would be impossible to replicate were MSG to move to New Jersey or another major metropolitan area. Furthermore because of league restrictions, it would likely prove challenging to co-locate the Rangers and Knicks outside of the New York area to meet both the National Hockey League (NHL) and National Basketball Association (NBA) league requirements, which are designed to prevent sports franchises within leagues from competing in the same regional markets.

IBO's approach to analyzing the effectiveness of the expenditure relied on historical and current document review including the original legislative documents, land use hearings and documents from 2013 and 2023 for MSG's special permit, as well as publicly available land documents in the Automated City Register Information System. IBO also reviewed the MSG-Penn Station Compatibility Report put forward to the City Planning Commission in June 2023 by the major railroads that operate out of Penn Station: Amtrak, the Metropolitan Transportation Authority, and New Jersey Transit.

Location of MSG is a Prime Advantage. The MSG arena is in Midtown Manhattan, the main central business district of New York City. It sits directly above New York's Penn Station, which in 2019, before the pandemic disrupted commuting patterns, had a daily ridership of around 600,000 rail and subway trips, making it the busiest transit hub in the Western Hemisphere. The station serves Amtrak's most well-traveled lines, as well as the largest and third largest commuter rail carriers in the United States—the Long Island Rail Road and New Jersey Transit. In the next few years, the Penn Station Access project is also expected to connect the second largest commuter railroad, Metro-North Railroad, to the station. In addition, tens of thousands of daily passengers also travel through Penn Station via the city's subway system.

With a large daytime population that includes commuters from New Jersey, Long Island, New York City's northern suburbs, Connecticut, and Pennsylvania, MSG's games are convenient outings for fans who work in or visit Manhattan. This is of significant benefit to NHL and NBA team revenue specifically because their seasons include regular weeknight games. By comparison, East Rutherford, New Jersey where the Giants and Jets football teams play, does not need to be as centrally located since there are fewer regular season games, and the games occur primarily on weekends making travel more manageable for fans.

If MSG were to move from its current location in Midtown, ticket revenue (and other associated revenue streams like luxury boxes, concessions, and merchandise) would likely decrease. MSG ownership is aware of the significant benefit afforded by the location; the land use application for renewal of the special permit to continue locating atop Penn Station states "Mass transportation is the most popular travel mode choice for visitors attending Arena events—a reflection of the proximity of the Site to various transit facilities."

New York City Provides Large Market Size. In its current location, MSG enjoys access to the largest commercial market in the country, the New York-Newark-Jersey City Metropolitan Statistical Area (which also includes Long Island, New York City's northern suburbs, and part of Pennsylvania). The 2022 American Community Survey one-year estimates peg this area at about 19.6 million residents. While no part of Connecticut is included in this population total, parts of the state are also well connected to Manhattan.

Team Valuation and Intangible Benefits. Furthermore, there is an intangible cost to moving the teams from New York City, as it has been the home of the Knicks and Rangers since those franchises were established. In addition, the brands of both the Knicks and Rangers are widely identified with New York City specifically. The Rangers and Knicks are consistently ranked amongst the most valuable franchises within their respective leagues (largely due to the market size and locational factors discussed above, though the Knicks are second to The Golden State Warriors).[19] Such valuations have proven over time to be generally independent of the teams' win-loss records.

While a move outside of New York City is not impossible, MSG's longstanding presence within the city means there is a large preexisting fan base. Though the value of the longstanding affinity for these teams and their arguably iconic association with New York City is difficult to numerically quantify, the global recognition of the Knicks' and Rangers' brand would be affected were the team to leave the city. The rebranding of both franchises as well as new facilities and staff turnover would likely prove to be a considerable cost to bear simply to avoid paying property taxes.

Market Saturation and League Location Restrictions. Finally, MSG ownership's ability to relocate the teams is affected by the respective league regulations of the NHL and NBA, both of which limit the number of franchises. The leagues limit where teams can locate as to limit competition with other teams in the same league. Co-locating the Rangers and Knicks would likely be difficult in terms of finding a location that has an untapped professional sports market for both the NHL and NBA.

Lack of Reporting Requirements Leading to Data Limitations. MSG is not required to report any data to the city or state as a condition of its property tax exemption. In contrast, IBO was able to review detailed employment data for qualifying firms in past analyses of economic development tax expenditures done pursuant to Local Law 18 on the Commercial Revitalization and Commercial Expansion Programs and also the Industrial Development

Agency's Industrial Program. Many of the city's economic development programs include reporting requirements for economic development indicators, such as number of jobs created and retained because of the expenditure or employment growth targets for the expenditure.

Because there are no reporting requirements, IBO is unable to evaluate the impact that the expenditure has had on MSG as an employer over time or the quality of the jobs offered by MSG. There is no means-testing or financial proof required from MSG to demonstrate the need for the property tax exemption, neither at the time the exemption was granted nor at present.

Privacy Concerns Restrict Use of Employment and Wage Data. In past economic development tax expenditure evaluations, IBO has relied on the New York State Quarterly Census of Employment and Wages (QCEW). This data set is provided to IBO by the State Department of Labor and reports monthly the wages, number of employees, and sector at the business establishment level for all employers within the city who are required to pay unemployment insurance.

Under privacy requirements mandated the New York State Department of Labor, IBO cannot use this data in any way that could link the information to an individual firm. Although IBO has access to wage and employment data for MSG, we could not use it within this analysis. This data issue could be addressed by creating reporting requirements on employment for MSG as a condition of receiving public subsidy, as is discussed subsequently in this report.

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5. Alignment with Tax Expenditure Best Practices And City Economic Development Strategy

MSG's property tax exemption does not align with current best practices for the design of economic development tax expenditures, nor with the academic consensus amongst economists regarding public subsidies for sports stadiums, nor with the stated economic development policy strategy of the city.

IBO reviewed best practices, city economic development policy, and academic literature related to evaluating economic development tax expenditures from various levels of government, as well as academic meta-analyses on the economic costs and benefits of sports facilities. (See Selected Further Reading.)

For this report, IBO also requested that the city's Economic Development Corporation (EDC) search records for any additional tax expenditures or incentives offered to MSG and affiliated businesses after the passage of the exemption in 1982.[20] EDC is the city's main agency responsible for managing economic development incentives. According to EDC reporting, MSG Entertainment Corporation or associated companies have not received any other economic support or tax breaks through EDC or its affiliates. EDC further confirmed that there are not current economic development incentive programs that MSG could potentially qualify for as-of-right (which are usually run through DOF).

Misalignment with City Economic Development Strategy. As part of our inquiry, EDC stated that there is no current economic development incentive programs that the MSG arena could potentially qualify for on a discretionary basis. EDC cited that MSG's tax expenditure does not align with city economic development policy preferences as identified by EDC. According to EDC in its response to IBO's data request for this report:

> Generally speaking, NYCEDC or its affiliated entities such as [the New York City Industrial Development Agency] NYCIDA dedicate its resources to economic development projects situated in Upper Manhattan and boroughs outside of Manhattan. We do not generally view an entertainment facility located in a preeminent Midtown Manhattan as a priority project that aligns with the City's economic development policy.[21]

All other major league stadiums subsidized by the city (Barclays Center, Citi Field, and Yankee Stadium) are in Brooklyn, Queens, and the Bronx. The subsidies were granted at the time of construction and were promoted as a way to help bring economic activity to areas of the city where it would not have likely occurred without the stadium projects. The construction of these stadiums relied primarily on the use of vacant land, park land, or rail yards—while the construction of MSG required the demolition the Penn Station train hall building in 1963.[22]

Furthermore, MSG ownership received the city subsidy after the facility was already built and had demonstrated its ability to operate successfully while paying property tax. The MSG arena has existed in four separate locations within Manhattan since its original opening in 1879 and the present facility built in 1968 was already an arena established within the city when it received its property tax exemption in 1982. The MSG property tax exemption was not directly tied to any new development or improvements to be made to the site or the surrounding area.

MSG ownership does not have to report to government agencies regarding its benefits, as is required for Yankee Stadium and Citi Field. Since both stadiums receive their property tax exemptions through an Industrial Development Agency land lease overseen by EDC, they are required to submit annual reporting on projected and actual jobs created and retained in relation to the public benefits, and the projects annually appear in EDC project reporting.[23]

Misalignment with Best Practices for Tax Expenditure Creation and Evaluation. IBO identified misalignment of the structure and terms of MSG's tax expenditure with best practices based on economic development tax expenditure evaluation literature at the state, federal, and international levels.

Best practice: Economic development tax expenditures should be discretionary.

A discretionary economic development incentive means that even if a project or company qualifies for an incentive program, other allocation factors can be considered in determining whether and to what extent the project is the highest and best use of public resources. For example, discretionary incentives can often look at the broader economic state of the city or distributional patterns of investment across physical location and industry. EDC in general is only authorized to provide discretionary economic development incentives. In contrast, the $42.4 million MSG receives annually through the property tax exemption is given as-of-right, meaning that no broader context can be incorporated into the decision as to whether MSG's exemption continues to be appropriate.

Best practice: Tax expenditures should be within the control of the level of government most directly fiscally impacted by it.

MSG's exemption represents an annual tax expenditure to the city but is controlled entirely at the state level. New York City's property tax system is primarily governed at the state level, but MSG's exemption is the only tax expenditure in state real property tax law explicitly designed to benefit singular for-profit business entity. Many economic development programs are enabled through state law, but then are implemented and controlled on a discretionary basis through local economic development organizations, like EDC or its subsidiary, the Industrial Development Agency.

Best practice: Tax expenditures should be tied to data reporting and measurement requirements.

There are no established data collection, reporting, or measurement requirements for MSG's tax expenditure. It is thus difficult to understand and measure the impact of the expenditure both on MSG ownership directly and the broader New York City economy over time. Many economic development programs administered by the city include recapture clauses, meaning that any financial assistance or tax abatements provided can be recouped if the firm fails to meet the metrics and terms of the assistance.[24] MSG is not required to meet any metrics besides the teams' location in New York City.

Best practice: Tax expenditures should be subject to mandated periodic reviews and sunset date.

MSG's tax expenditure legislation establishes the exemption in perpetuity and does not require any reviews of its effectiveness or relevance. This report is the first formal evaluation of the expenditure since it was established in 1982 and was requested by City Council under Local Law 18. To determine the continued relevance of a tax expenditure over time, the expenditure should have legally mandated periodic review as well as a sunset date.

Best practice: Tax expenditures should include employment requirements.

There is evidence in academic economic development literature that government should refrain from subsidizing firms that provide primarily low wage jobs, since such a subsidy does not translate to economic development within the local community but rather, may often lead to increased wages for well-paid executive positions, returns to investors and stockholders, or both.[25] This would result in a leakage of the benefit of the economic development subsidy outside of the local area that it is intended to bolster. MSG's owners are not required as a term of its tax expenditure to meet any wage requirements or report to the city on what wages and benefits it provides employees. Increased reporting and terms could better ensure the city avoids what economists refer to as a "double subsidy." A "double subsidy" occurs when government subsidizes a low-wage firm directly (such as through a property tax exemption) and then also indirectly subsidizes the same business's costs through providing social services for the employees of a firm that does not give adequate benefits and wages to meet its employees' basic needs like housing, healthcare, and food.

Misalignment with Academic Consensus Among Economists. Importantly, there is general agreement in the field of public economics that substantial government subsidies for sports facilities are not an efficient use of scarce public resources.[26] There is little evidence that these types of subsidies generate sufficient economic activity to reflect a net fiscal benefit to the local area. This suggests that the city should carefully scrutinize ongoing and future proposals for public subsidies to sports stadiums.

The ability to undo any tax benefits granted to sports stadiums in New York City, however, is varied. MSG's is the only facility within New York City which could be made to pay city property taxes in the near term. This could be accomplished by repealing the state law which grants the exemption. Repeal of the exemption has been proposed in recent state budget negotiations as well as in prior legislative proposals, and New York City Council has expressed support for ending MSG's tax exemption in 2006, and 2014, but despite these efforts, such repeal has not been adopted. The more complex subsidies granted to Barclays, Yankee Stadium, and Citi Field are limited to the terms of the respective lease agreements and to the maturity of the bonds used to construct the stadiums.

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6. Conclusion and Recommendations

Is the MSG property tax exemption meeting its goal of keeping the Knicks and Rangers sports teams in New York City? To that end, both teams still play home games in Midtown Manhattan and have not relocated. How much of that decision, however, can be attributed to the property tax break cannot be quantified, given that the tax exemption has no reporting requirements. In the absence of detailed company financial information and a wider study of market viability for alternative team locations, IBO cannot answer this definitively. IBO does conclude that the transit-connected location, large market size, and established fan base, coupled with restrictions on alternative places the franchises could relocate, signal that there are many reasons outside of property tax exemption for the teams to remain located in New York City. It is unlikely that the Knicks' and Rangers' continued location within the city is solely dependent on the property tax exemption.

Since the property tax exemption was first granted to the MSG arena in 1982, the city has foregone more than $946.7 million (in 2023 dollars) in property taxes. In fiscal year 2023, MSG's property tax exemption represented at least a $42.4 million benefit to the arena. The tax expenditure was passed following the exit of several other prominent professional sports franchises from the city both before and following the financial crisis of the 1970s. These factors created sympathy for the subsidizing of MSG, though nothing is actually known as to how seriously MSG was entertaining a move at the time the subsidy was established.

MSG's property tax exemption itself is not in line with current city economic development policies nor with generally accepted best practices for tax expenditure creation and evaluation. While the public policy and political considerations remain a matter of robust debate, there is broad consensus amongst economists and academic researchers that government subsidies for sports stadiums are not an efficient use of scarce public resources. This body of literature calls into question the larger city policy of providing stadium subsidies, regardless of whether they are in central Manhattan or in other boroughs and regardless of the mechanisms used to deliver the subsidy.

Recommendations. To better align with tax expenditure best practices, IBO recommends that the City Council seek to ensure that any future subsidization of the MSG arena is brought under the city's discretionary control and that any future subsidy awards be made subject to mandated periodic review, data reporting requirements, employment terms, and sunset dates. The city should mandate full public transparency with regard to any additional economic development incentives that are negotiated with MSG now and going forward. For example, the state never required sufficient reporting so as to make it possible to quantify the value of the energy discount provided in the 1982 state law, which was part of the incentives provided to the arena at that time.

Finally, IBO recommends that the City Council, and as applicable, the state legislature, make transparent the rationale for any future economic development incentives for MSG, whether that rationale be based on empirically demonstrated need for subsidization, MSG ownership's threats to move the teams, or any other justification.

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Appendix

Laws of New York, 1982, Chapter 459

Section 1. Legislative Findings

The legislature hereby finds, determines and declares that the presence of professional major league sports teams greatly contributes to the general and economic welfare the people of the state and of the municipality in which such teams play their home games; that such teams are an invaluable recreational resource of the state and promote civil pride and community cohesiveness; that such teams contribute to economic growth, attract visitors and generate substantial state and local revenues; that such teams help to maintain, strengthen and revitalize the areas in which such teams play their home games; that due to inflation, increases in the cost of energy, taxation and other economic factors, operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for said teams to continue their operations; that unless action is taken, including real property tax relief and the provision of economical power and energy, the loss of such teams is likely; and that a public purpose would be served and the interests of the people of the state would be promoted if the retention of such teams were encouraged.

Section 2. The real property tax law is now amended by adding a new section four hundred twenty-nine to read as follows:

§ 429. Real property used for professional major league sports. Real property within a city having a population of one million or more, used by both a professional major league hockey team which is a member of the National Hockey League and a professional major league basketball team which is a member of the National Basketball Association to play their home games shall be exempt from taxation to the extent said taxes are the obligation by lease or otherwise of the owners of franchises for such teams, provided that such owners enter into a written agreement with the chief executive officer of the municipality in which such property is located to play their home games within such municipality for a period of at least ten consecutive years. The tax exemption provided herein shall be granted to real property being used, in whole or in part, for the aforesaid purposes on the date such agreement is executed and shall apply to taxes which become due and payable after the aforestated agreement is executed and shall continue with respect to such property as long as both of said teams play their home games therein and no longer. Such exemption shall not apply with respect to any improvement to such property made after the date such agreement is executed which improvement is not used for the provision of facilities or services related to sports, entertainment, expositions, conventions or trade shows. If one or both of said teams shall cease to play their home games in said property at any time, the tax exemption provided herein shall cease immediately and such property shall immediately be restored to the tax rolls and thereupon become subject to taxation and shall be taxed pro rata for the unexpired portion of the taxable year.

Section 3.

Notwithstanding an inconsistent provision of law, any public utility company which purchases power and energy from the power authority of the state of New York and which supplies power and energy to any facility, within a city having a population of 1 million or more, used by both a professional major league hockey team which is a member of the National Hockey League and a professional major league basketball team which is a member of the National Basketball Association to play their home games, is authorized and directed to supply to such facility power and energy which it purchases from such authority and to pass on to the owner of such facility the savings realized from the purchase of such power and energy to the extent that such savings are equal in amount to the savings such facility would realize if such facility were a customer of such authority within the metropolitan area of the city of New York, provided that the owners of franchise of such teams enter into a written agreement with the chief executive officer of the municipality in which such facility is located to play their home games within such municipality for a period of at least 10 consecutive years and further provided that such savings shall not be passed on to the owner of such facility or another party to the extent such owner furnishes power or energy under a lease or concession agreement which prescribes a specific charge therefor. The cost of such savings shall be shared by each customer of such company, and by each customer of such authority within the metropolitan area of the city of New York, in the following proportions: (a) the energy generated and purchased by such company for its customers; (b) the energy generated and purchased by the authority for its customers other than such company within the metropolitan area of the city of New York, to (c) the total amount of such energy, all in the prior calendar year. Such company shall be permitted to recover the entire cost of such savings through its rate and delivery service schedule provisions and any associated monthly statements dealing with adjustments in rates according to changes in the cost of fuel and purchased power, and such authority shall assist the company by providing the appropriate data therefor. Such company shall supply power and energy to any facility being used for the purposes herein stated on the date such agreement is executed and shall continue to supply power and energy to such facility as long as both of said teams play their home games therein and no longer. It one or both of said teams shall cease to play such games in such facility at any time, the authorization and direction provided herein to supply such power and energy to such facility shall cease immediately.

Section 4. This act shall take effect immediately.

Legislative Support Letter from Mayor Koch submitted to Governor Carey in 1982 (excerpt)

The presence of major league sports teams is an invaluable recreational resource of the State and municipalities in which such teams play. They are important to the economic welfare of the State and localities in that they contribute to economic growth, attract visitors and generate substantial revenues. Additionally, they help to maintain, strengthen and revitalize the areas surrounding the facilities in which the games are played.

The City of New York has been negotiating with the owner of Madison Square Garden, which also owns the New York Knicks and the New York Rangers, in an effort to assist these teams to continue to play their home games in the City. As a result of the escalating costs to the Garden of labor, taxation and energy, the City was faced with the possibility of losing both teams.

Department of Finance Annual Tax Expenditure Report, p. 59

Major League Sports Facilities–Madison Square Garden

Citation: NYS Real Property Tax Law, Section 429

Policy Objective: Ensure the viability of a major league sports facility in New York City.

Description: The City has provided a full Real Property Tax exemption for Madison Square Garden. The exemption is contingent upon the continued use of the Garden by professional major league hockey and basketball teams for their home games.

Tax Expenditure: $42.4 million

Original Legislative Findings from 1982 Law

The legislature hereby finds, determines and declares that the presence of professional major league sports teams greatly contributes to the general and economic welfare the people of the state and of the municipality in which such teams play their home games; that such teams are an invaluable recreational resource of the state and promote civil pride and community cohesiveness; that such teams contribute to economic growth, attract visitors and generate substantial state and local revenues; that such teams help to maintain, strengthen and revitalize the areas in which such teams play their home games; that due to inflation, increases in the cost of energy, taxation and other economic factors, operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for said teams to continue their operations; that unless action is taken, including real property tax relief and the provision of economical power and energy, the loss of such teams is likely; and that a public purpose would be served and the interests of the people of the state would be promoted if the retention of such teams were encouraged.

Memorandum from the State of New York Division of Equalization and Assessment to the Senate Committee on Rules (excerpt)

The bill is intended as an incentive for the New York Knickerbockers professional basketball team and the New York Rangers professional hockey team to remain in New York City. Recently there has been considerable media attention paid to the possibility of these two teams moving their franchises from New York City, allegedly due, in part, due to high real property taxes owed by Madison Square Garden, which tax burden is passed along to its tenants.

New York City Economic Development Corporation Response to IBO Questions

1. List of any economic support or tax breaks received by MSG Entertainment Corp (or associated holding companies/LLCs) since the beginning of the 1982 tax expenditure, with included annual amounts.

MSG Entertainment Corp and any of the entities listed in your question have not received any tax incentives through NYCEDC or its affiliated entities such as the New York City Industrial Development Agency (NYCIDA).

2. What current EDC/IDA/LDC incentive programs could MSG potentially qualify for as-of-right?

While NYCEDC is not empowered to offer as-of-right tax incentives, we have reviewed a number of currently available programs–primarily offered through the City's Department of Finance (DOF)–to identify any applicable programs for MSG. It is our understanding that there are no(t) available as-of-right programs offered through DOF.

3. What current EDC/IDA/LDC incentive programs could MSG potentially qualify for on a discretionary basis?

Generally speaking, NYCEDC or its affiliated entities such as NYCIDA dedicate its resources to economic development projects situated in Upper Manhattan and boroughs outside of Manhattan. We do not generally view an entertainment facility located in a preeminent Midtown Manhattan as a priority project that aligns with the City's economic development policy.

While NYCIDA's Uniform Tax Exemption Policy (UTEP) discusses financial incentives specific to commercial development project in the Hudson Yards area, the particular area where the Garden is located is no eligible under the UTEP.

Selected Further Reading

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Endnotes

[1]See Appendix: Real Property Tax Article 4, Section 429.
[2]The Chrysler Building is also exempted from property tax. The Chrysler building's exemption was originally created for Cooper Union for the Advancement of Science and Art in Manhattan's East Village. Because the Chrysler building was built on land owned by Cooper Union, a series of legal decisions determined the exemption would apply to the building even though the Chrysler Building was not used for educational purposes. Under the terms of the Chrysler Building lease, payments in lieu of property taxes are paid to the college.
[3]IBO only has parcel-level property tax information going back to 1984. Therefore, IBO's calculation excludes the value of the tax expenditure for its first year in fiscal year 1983. Without this data limitations, we cannot know what the city forewent in taxes for the first year of MSG's exemption, though IBO expects the tax expenditure was close to its value in fiscal year 1984 ($10.7 million). With this additional estimate, the total tax expenditure in real 2023 dollars from fiscal year 1983 through 2023 would be $957.4 million.
[4]Proposals to repeal the legislation have been suggested as a component of annual budget negotiation as well as standalone bills outside of the budget process. The change in state law could happen through either of these pathways.
[5]The Meadowlands Sports Complex was built by an owner of the NY Jets, David Abraham "Sonny" Werblin, who then managed the complex from 1971 through 1977. Notably, Werblin later served as chairman of MSG overseeing the arena from 1978 through 1984, and was heavily involved in the negotiations with the city regarding the tax expenditure and other associated benefits. Werblin's affiliation both with MSG and the Meadowlands lent credibility to the Knicks' and Rangers' threats to relocate also to New Jersey. After 1984, Werblin remained chairman of MSG but no longer oversaw operation of the arena facility.
[6]ConEd tried disentangle themselves from MSG's discounted rate starting in 2012, citing an end to the Power for Jobs program that MSG's discounted rate was pegged to, leading to a request for review before the New York State Public Service Commission in 2013. The New York Power Authority reported to IBO that the discounted energy provision for MSG ended in 2012.
[7]Appendix: Legislative Support Letter from Mayor Koch submitted to Governor Carey in 1982.
[8]Appendix: Department of Finance Annual Tax Expenditure Report.
[9]Appendix: Original Legislative Findings from 1982 Law.
[10]Ibid.
[11]New York Times, July 3. 1982, "Madison Square Garden Given Tax Breaks"
[12]New York Times, April 3. 1982, "Deal Emerging to Keep Garden From Closing"
[13]Appendix: Memorandum from the State of New York Division of Equalization and Assessment to the Senate Committee on Rules. The state Division of Equalization and Assessment division was the only public entity in bill jacket documents cautioning against the exemption for MSG. The division expressed skepticism about the merits of the legislation and its constitutionality, citing state constitutional prohibitions against the creation of special exemptions.
[14]New York Times, April 3. 1982, "Deal Emerging to Keep Garden From Closing"
[15]New York Times, Nov 21. 2002, "Metro Matters: No Taxes, No Foul at the Garden"
[16]The Preliminary Report of the New York City Advisory Commission on Property Tax Reform discusses the challenges in how Class 4 commercial properties are valued more generally. See pages 45-46.
[17]Cost is usually gathered from either published reports or information provided to the Department of Buildings. Depreciation is determined by the Economic Age-Life Method which looks both at the current age of the property as well as the overall expected life of the property to determine depreciation.
[18]While the initiation of the tax expenditure revolved around the Knicks and Rangers remaining in New York City, it is worth noting that MSG has also hosted home games for the New York Liberty of the Women's National Basketball Association (WNBA) for the 1997 thorough 2010 and then 2014 through 2018 seasons. The team has since relocated to play at Barclays Center in Brooklyn following a change in ownership.
[19]NHL Team Values 2022: New York Rangers On Top At $2.2 Billion (forbes.com) and New York Knicks on the Forbes NBA Team Valuations List
[20]The request asked EDC to identify any benefits provided through EDC and affiliated organizations such as the Industrial Development Agency and Local Development Corporation programs, as well as any benefits through prior iterations of EDC such as the now-defunct Public Development Corporation and the Financial Services Corporation/NY Economic Capital Corporation. MSG-affiliated businesses include Beacon Theatre, Radio City Music Hall, MSG Network, Madison Square Garden Sports Corp, Madison Square Garden Entertainment Corp, and any additional holding companies or Limited Liability Corporations (LLCs) that EDC identified.
[21]Appendix: New York City Economic Development Corporation Response to IBO Questions.
[22]Barclays Center is the most comparable to MSG, located in the central Downtown Brooklyn business district atop Atlantic Terminal train station. Though Barclays received city subsidy when it was built, this project was part of a larger new development of Atlantic Yards which was led by the state's Empire State Development (ESD).
[23]Annual Investment Projects Report – Pursuant to New York City Administrative Code SS22-823, Volume I FY2022, January 31, 2023
[24]NYCIDA-Uniform-Tax-Exemption-Policy-2019.pdf (edc.nyc)
[25]See Government Accountability Office, 2020, Federal Social Safety Net Programs: Millions of Full-Time Workers Rely

on Federal Healthcare and Food Assistance Programs. and also Jacobs, K., Perry, I., MacGilvary, J., (2015). The High Public Cost of Low Wages, Poverty-Level Wages Cost U.S. Taxpayers 152.8 Billion Each Year in Public Support for Working Families, UC Berkley Labor Center.

[26]See Selected Further Reading for list the seminal works forming the academic consensus that public subsidies for sports stadiums are a suboptimal use of public resources.

[27] MSG's eligibility for the tax expenditure was directly disputed in 2005. For the 2004-2005 season, the NHL instituted a labor lockout against the players' union, which resulted in the cancellation of the season. This meant that for this period, MSG did not host home games of a major league hockey team—a condition required by law for MSG to maintain its tax-exempt status. Public officials at the time, including numerous City Council members and IBO, drew attention to this inconsistency. However, MSG maintained its property tax exemption on the grounds that there were no NHL home games being played by any teams during the lockout. This rationale was criticized since lockouts are implemented by the team owners and the NHL, who chose to not meet the conditions of the tax exemption when they instigated the lockout. Separately, in 2018, an unusual arrangement was brokered for the Rangers to play as the "away" team at an alternative location in New York City, so as to not violate the home-game requirements of the property tax exemption. The Rangers were slated to host the Buffalo Sabres for the 2018 Winter Classic, an annual outdoor hockey game, at Citi Field. To maintain the exemption, MSG and the NHL agreed that the Buffalo Sabres would be designated by the NHL as the "home team" for the game—despite the team being based in Buffalo and the Winter Classic being played in the Ranger's home city.

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