Good morning Chair Ferreras and members of the committee. I am George Sweeting, deputy director of the New York City Independent Budget Office. Thank you for inviting IBO to testify at today’s hearing on Madison Square Garden’s property tax exemption.

Since 1982, the Garden has been fully exempt from real property tax under a provision of New York State law that effectively only applies to that property. In the current fiscal year this results in a savings for the owners of the Garden of $17 million. On the Department of Finance’s tentative assessment roll for 2015 the estimated market value for the Garden has been increased by nearly $800 million and is now shown as $1.2 billion, presumably as the result of the major renovation over the past three years. With a higher market value the value of the exemption will also grow. Although the values will not be final for a few more weeks, at the moment it appears that the amount of the tax expenditure in 2015 will be roughly $54 million.

I note that the resolution under consideration today draws heavily upon one of the revenue options included in IBO’s annual volume of budget options. Just to make it clear, the options in that volume are not recommendations or proposals. IBO does not take a position on whether Madison Square Garden’s exemption should be repealed or continued.

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

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

Now let me turn to more specific observations about the Garden’s exemption. One basic premise of good tax policy is that to the extent that economic development incentives are granted, it is preferable that they be generally available to all qualifying firms.

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

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

An economic development incentive provided through a permanent tax exemption offers little chance to withdraw the tax benefit when the city is not getting the full economic benefit envisioned. Consider what happened 18 months ago when the National Hockey League owners locked out the players, forcing the cancellation of 34 out of the 82 games originally scheduled for the 2012-2013 season. The city lost the fiscal benefit from the spending by teams and fans for 17 regular season home games. This marked the third prolonged shut down of either the National Basketball Association or National Hockey League since the exemption was granted. Under current law the exemption remained in effect. It would only lapse if one or both of the two teams were to play their home games in another venue.

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

Of course, the Garden also competes against other sports venues for fans and revenue. In recent years the city has subsidized new facilities for the Mets, the Nets, and the Yankees. IBO’s most recent estimates of the present value of these city subsidies are $138 million for Citi Field, $350 million for the Barclay’s arena, and $362 million for Yankee Stadium. These deals also include additional state subsidies and federal tax-exempt financing. Measured on a comparable basis, which involves estimating the future revenues that would have been generated if the projects had received the standard incentive benefits available to all developers, the Garden’s exemption represents a city subsidy of about $541 million. The Garden’s subsidy is larger because the as-of-right benefits that IBO assumes would have been used are less generous than those that would have been available to the other venues when they were constructed.

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