New York City Independent Budget Office
Fiscal Brief
September 2009

The Proposed Arena at Atlantic Yards: An Analysis of City Fiscal Gains and Losses

Also available...

City Revamps Arts Funding Process: More Funds for More Groups

... at www.ibo.nyc.ny.us

SUMMARY

IBO HAS REVIEWED the fiscal impact of the proposed Atlantic Yards arena at the request of Assembly Members James Brennan, Hakeem Jeffries, and Joan Millman; Senators Bill Perkins and Velmanette Montgomery; and Council Members Letitia James and David Yassky. The arena is IBO's focus because it accounts for almost all of the special benefits being granted by the city and state to the larger Atlantic Yards project. In addition, there is considerable uncertainty about the timing of the completion of individual buildings in the rest of the project, which makes estimating the fiscal impact of the full project over the next 30 years extraordinarily uncertain.

IBO has analyzed the costs to the current city and state budgets from special capital spending and the loss of existing tax revenue at the site versus our projection of new tax revenues resulting from the construction and operation of the facility. Among our findings:

- Over a 30-year period, the arena would cost the city nearly $40 million more in spending under current budget plans than it will generate in tax revenues (present value, 2009 dollars). The costs total nearly $170 million from financing city expenditures on the arena and the loss of existing tax revenues at the site.
- For the state, the arena would have a net fiscal benefit of $25 million as new tax revenues would exceed spending currently budgeted for the facility. The Metropolitan Transportation Authority would garner nearly $6 million in new tax revenues.
- The new direct and indirect economic activity generated while the arena is under construction in 2010–2011 includes an annual average of 3,282 new jobs in the city, most in the building trades. When the facility is open there will be an average of 955 new jobs, many of them part time, and mostly in performing arts and spectator sports.
- For the developer, Forest City Ratner Companies, the mix of special government benefits result in total savings of $726 million.

The project also includes tax exemptions and other provisions that reduce the level of potential additional revenues the arena might generate for the city, state, and Metropolitan Transportation Authority. These opportunity costs total $181 million for the city and $16 million for the state, plus another $22 million for the transportation authority due to its below market rate sale of land. Were governments not denied these revenues, the city would realize a substantial net fiscal gain from the arena instead of a net loss.

Because this study focuses on the project's budget impact, transportation, land use, and other issues related to the project are not covered. At the same time, IBO notes that estimates of fiscal costs or benefits are only one aspect of the many different factors that should be taken into account when evaluating the overall merits of a project.

New York City
Independent Budget Office
Ronnie Lowenstein, Director
110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
Fax (212) 442-0350
e-mail: iboenews@ibo.nyc.ny.us
http://www.ibo.nyc.ny.us

DESCRIPTION OF THE PROJECT

Forest City Ratner Companies (FCRC) has proposed a major redevelopment of the Atlantic Yards area in downtown Brooklyn—a 22-acre site currently dominated by the open, below-grade Metropolitan Transportation Authority (MTA) rail yard. The most recent description of the Atlantic Yards arena and redevelopment project—the June 2009 Modified General Project Plan—calls for the construction of a 18,000-seat basketball arena on the southeast of the intersection of Atlantic and Flatbush Avenues and 16 mixed-use buildings (mostly east of the arena), plus reconfiguration of the MTA's rail yard. The project would also entail subway, utility, and other infrastructure improvements.

Development would occur in two phases. The first phase would feature the construction of the $772 million Atlantic Yards arena in time for the Nets to relocate from the New Jersey Meadowlands to Brooklyn for the start of the 2011–2012 National Basketball Association (NBA) season. The modified project plan does not include a specific timetable for the remainder of construction in Phase I—five high-rise buildings near the arena plus the rail yard's upgrade—or for the beginning of Phase II, in which additional towers and possibly a school would be built in the eastern portion of the development area.[1] The non-arena buildings are to contain office, commercial, residential, and possibly hotel space, though the latest project plan does not present a specific allocation of the different uses among these buildings.

Why the Arena Only? As in our previous report, IBO's focus is on the arena and the net fiscal impact resulting from the use of public dollars to support that part of the larger project. There are two reasons why we have again confined our impact calculations to the arena. The first is analytical and the second is practical.

Analytically, we are only interested in calculating the returns to the public fisc from the discretionary benefits being granted to this project above and beyond the as-of-right benefits that would be available to any developer at this site or elsewhere in the city. In the case of Atlantic Yards, the arena accounts for virtually all of the discretionary benefits flowing to the project. The rest of the project would receive benefits that are available as-of-right to all qualified developments or else special arrangements that will result in benefits that are consistent with those as-of-right programs. Thus, neither the public costs of the commercial and housing development incentives that would be used for the larger development, nor the economic and tax impacts resulting from adding office space and apartments are counted in our analysis. We are only analyzing the extraordinary benefits for the arena and the economic and tax impacts resulting from operation of the arena.

The practical reason for focusing on the arena is the much greater uncertainty about the timetable for the rest of the project, particularly given that credit markets have still not fully recovered from the shocks of the last 18 months and that demand for office space and housing—especially luxury housing—is significantly weaker than it was earlier this decade when the project was initially approved. Although often treated as a single project, under the current plan Atlantic Yards would be developed in two distinct phases, and even within the two phases there is considerable uncertainty as to when each building would be constructed. While the agreements between FCRC and the city and state include performance targets and financial penalties for missing them, they have been eased, first in the funding agreements signed in 2007 and then further so in the most recent Modified General Project Plan that is pending approval. If Forest City Ratner used the maximum time available under the new modified project plan, construction could extend until after 2020. Given this uncertainty about the timing of completion of individual buildings and the ultimate timing for full build out, IBO has chosen not to estimate the fiscal impact of the full project over the next 30 years.

DISCRETIONARY BENEFITS FOR THE ARENA

The basketball arena at Atlantic Yards would receive a number of city and state benefits granted at the discretion of New York's economic development agencies. The benefits include direct contributions of cash, capital investment and property; access to tax-exempt financing; exemptions from property, sales, and mortgage taxes; and a below market sale of MTA property.

In reviewing the discretionary benefits provided for the arena, IBO distinguishes between those that require the city and state to make outlays or give up existing revenues, and those that involve foregoing potential new tax and miscellaneous revenues from the arena. We refer to the former as costs to the current budget, or baseline costs, and to the latter as opportunity costs.

City and State Capital Contributions. The project plans have long contemplated direct payments of $100 million each from the city and state to Forest City Ratner to be used for project infrastructure such as building the platform over the rail yard. In the case of the city, the contribution could also be used for land acquisition, except for the purchase of MTA properties or land acquired through eminent domain. The city has already committed its contribution in the capital budget and most of the proceeds appear to have been used by FCRC for land purchases.

In January 2007, shortly after the first modified project plan was approved, Mayor Michael Bloomberg cited capital contributions for Atlantic Yards from the city of $205 million rather than the previously announced $100 million. When questioned at the time, the Bloomberg Administration explained that it was also counting infrastructure projects such as rebuilding and expanding water and sewer capacity and street upgrades at or near the site. In some cases these projects are needed in order to handle the demands on municipal infrastructure resulting from a project on the scale of Atlantic Yards. In other cases, there were infrastructure projects in the Atlantic Yards vicinity that would have been necessary sooner or later whether the project was built or not.

Because a portion of the additional $105 million in city capital contributions cited by the Mayor would likely have occurred in the absence of the project, IBO counts about half of this addition—$50 million—as part of the city's capital contribution for the project.

For both the city and the state, the "cost" of the capital contributions is the total debt service over the life of the bonds sold to finance the payments to FCRC. For the city, this amounts to $156 million (present value), and for the state the cost is $104 million. These costs are direct expenses from the current city and state budget baselines. For Forest City Ratner, the savings equals the debt service that the company would have had to pay for financing the contributed capital itself. IBO estimates that these savings for FCRC total $320 million.

Contributions of City Property. The city will provide some property for the project at no cost. According to the latest modified project plan, this will include the street bed of Fifth Avenue between Flatbush and Atlantic Avenues and the street bed of Pacific Street between Flatbush and Sixth Avenues, as well as a small traffic triangle at the intersection of Fifth Avenue and Pacific Street. Based on recent sales prices in the area, IBO estimates that the 2010 sales value of this property is $3.7 million.[2] Not selling this land at a market price to another developer or to FCRC adds to the opportunity cost of the project. In the portion of the project east of Sixth Avenue—which is outside of the arena footprint—FCRC is committed to paying a market price for the street bed of Pacific Street between Sixth and Vanderbilt Avenues.

The city will also transfer two city-owned parcels to the Empire State Development Corporation (ESDC) at no cost, which will then be leased to FCRC, that appear to be included in the arena site. The first (block 1127, lot 33) is valued by the Department of Finance at $124,000 on the current tax roll, and the second (block 1118, lot 6) has a reported full market value of $5.8 million.[3] Based on these market values, the value of the subsidy from ignoring the opportunity to sell these properties is $6.0 million.

Access to Tax-Exempt Financing. Much of the construction costs of the arena would be financed through tax-exempt bonds

Public Costs and Private Savings From Exemptions and Subsidies for Atlantic Yards Arena

Present value (dollars in millions)

	City Costs	State Costs	MTA Costs	Federal Costs	Total Public Costs	FCRC Savings
Costs to Current Budget						
City and State Capital Contributions for Arena	$(156.4)	$(104.3)	0.0	0.0	$(260.7)	$320.3
Loss of Existing Property Taxes on Arena Site	(13.0)	0.0	0.0	0.0	(13.0)	0.0
Total Costs to Current Budget	**$(169.4)**	**$(104.3)**	**0.0**	**0.0**	**$(273.7)**	**$320.3**
Opportunity Costs						
Tax-Exempt Financing for Arena	(1.5)	(4.9)	0.0	(193.9)	(200.3)	193.5
Arena Property Tax Exemption	(146.0)	0.0	0.0	0.0	(146.0)	146.0
Mortgage Tax Exemption for Arena Financing	(13.0)	(2.1)	(11.3)	0.0	(26.4)	26.4
Sales Tax Exemption for Arena Construction	(10.4)	(9.2)	(0.9)	0.0	(20.4)	20.4
MTA "loss" on Rail Yard (Arena Portion)	0.0	0.0	(10.0)	0.0	(10.0)	10.0
Opportunity Cost of Transfer of City Property to FCRC	(6.0)	0.0	0.0	0.0	(6.0)	6.0
Opportunity Cost of Transfer of City Streets to FCRC	(3.7)	0.0	0.0	0.0	(3.7)	3.7
Total Opportunity Cost	**$(180.5)**	**$(16.2)**	**$(22.2)**	**$(193.9)**	**$(412.8)**	**$406.0**

SOURCE: IBO.

NOTES: Present value of fiscal years 2010-2039 costs and savings computed using discount rate of 6.0 percent. Costs to current budget are direct government expenditures or existing revenues lost on behalf of arena. Opportunity costs are potential arena-related government revenues foregone as benefit to arena.

to be issued by a special local development corporation formed by the Empire State Development Corporation for this project. Tax-exempt bonds pay lower interest rates than do taxable bonds because investors are willing to accept less income in exchange for paying less income tax. This results in savings for the developer and costs to the public taxing jurisdictions when the income from the bonds is excluded from income subject to personal income tax.

A 1986 amendment to the Internal Revenue Code sponsored by the late Senator Patrick Moynihan sought to make it much harder to use tax-exempt bonds to finance the construction of sports facilities. The intent of the amendment was to require that jurisdictions using tax-exempt bonds for such a purpose could only do so if the revenue pledged as debt service came from a general revenue source applicable across a jurisdiction. If the debt service was to be paid largely by the owner or operator of the sports facility, then the bonds would not qualify for tax-exempt status.

In securing tax-exempt financing for most of the construction costs of the new baseball stadiums for the Yankees and the Mets, the city and its financial advisors found a way to circumvent these strictures. From a practical perspective, the two new stadiums are privately built and operated facilities with no annual rental payments due to the city, as had been the case in the old stadiums. From a technical perspective, however, they are publicly owned facilities built on land that has been leased to the stadium developers through 99-year ground leases. By structuring the deals so that the new stadiums are publicly owned, the city could offer the teams property tax exemptions, saving each of the teams hundreds of millions of dollars. Although exempt from property tax, the teams make payments in lieu of taxes (PILOTs), but rather than routing them to the city's General Fund, they are diverted to pay debt service on the tax-exempt construction bonds.

In 2006, when the city completed its negotiations with the two baseball teams, there was some concern that this arrangement would not comply with the Moynihan rules because it appeared that the debt was being serviced with a revenue stream flowing only from the stadiums (the PILOTs) rather than a general revenue source such as the property tax. In order to clarify the issue, the city requested and received a letter ruling from the

WILL INCREASE IN LAND ASSESSMENTS COVER DEBT SERVICE?

Even if Forest City Ratner is able to beat the deadline before its grandfathered approval to use the now-banned payment in lieu of taxes, or PILOT, financing structure expires, the arrangement may face scrutiny based on the amount of the PILOT. If a PILOT is to be used for debt service, it cannot exceed the regular property tax that would apply if the property were not tax-exempt. Concern that a PILOT be high enough to cover the debt service can result in the unusual situation of a property owner hoping for a higher assessment.

In the case of the new Yankee Stadium, the city's Department of Finance's assessments—particularly the land portion of the assessment—proved controversial and prompted a Congressional hearing because they were significantly higher than other estimates, including one by independent appraisers hired by the city for other purposes.

Turning to Atlantic Yards, IBO estimates that a typical property tax assessment would result in a PILOT that falls short of the payments needed to cover debt service in the early years of the project. Assuming the arena is assessed using a cost methodology, taking into account hard and soft construction costs and actual land acquisition costs, IBO estimates that in the early years after the arena opens, a typical property tax assessment would yield a tax bill of about $40 million annually. (If the developer took advantage of the as-of-right Industrial Commercial Abatement Program, the bill would be less than $10 million annually for more than a decade). In contrast, IBO's estimate of the annual debt service payment for the arena's tax-exempt bonds—assuming a 7.0 percent interest rate, 30-year term, and level payments—is $55 million.

Although the Department of Finance has sharply increased its assessments on land (particularly vacant land) throughout the city over the past year, the increases elsewhere in the city are just a fraction of those at the site. Citywide, the average increase in assessments on vacant land from 2009 to 2010 was 63 percent; for Brooklyn as a whole, vacant land values grew by 100 percent. Over the same period, the aggregate assessment increase for the three tax blocks that will be at least partially covered by the arena at Atlantic Yards has grown by 238 percent, while the assessment on the arena site's vacant land has risen 702 percent—an eight-fold increase.

Despite the steep rise in assessments for Atlantic Yards, IBO estimates that the increases this year bring the city's current land assessments for the arena blocks more closely in line with sales prices. Even at the current assessment levels, however, we project that PILOTs generated by the arena would still fall short of the payments needed to finance the arena's debt service.

Internal Revenue Service (IRS) stating that the arrangement was acceptable, and financing for the city's baseball stadiums proceeded as planned. The IRS subsequently reconsidered the matter and issued regulations that effectively prohibit such arrangements in the future.

Nevertheless, the plan is to use the same arrangement for the Atlantic Yards arena, although to do so, the arena bonds must be sold by December 31, 2009. That is because the new IRS regulations provided a grandfather clause that left a temporary window for ESDC and FCRC to use the Yankees/Mets funding arrangement at Atlantic Yards, provided they do so before the deadline. If the bonds cannot be sold before the deadline, the financing costs for the arena would grow substantially.

IBO estimates that allowing the use of tax-exempt bonds will result in reduced interest expenses that save FCRC $194 million (present value).[4] The total cost (present value) to the public sector would be $200 million, with by far the largest share borne by the federal treasury ($194 million), while the state loses $5 million and the city $2 million.

Property Tax Exemption. The PILOT financing structure depends on the arena tax blocks being exempt from city property tax, but granting this exemption represents an estimated $146 million (present value) opportunity cost. That amount reflects IBO's estimate of the property tax that would have been owed over 30 years if the arena were assessed as if it were privately owned.[5] Forest City Ratner's savings are just equal to the city's revenue loss.

This estimate of the cost to the city of the arena's property tax exemption is considerably larger than we estimated in 2005. The MTA portion of the land is currently tax-exempt because the land is publicly owned. IBO's latest estimates assume that if FCRC or any alternative developer operating solely with as-of-right benefits purchased the rail yard from the MTA, the exemption would expire. In our 2005 report we had assumed that the exemption would continue through a leasing arrangement—even if the arena site were transferred to another developer—because that would maximize the proceeds for the MTA. It is clear that the MTA's ability to maximize its return from property sales has been constrained. Moreover, the latest modified project plan stipulates that FCRC must pay the equivalent of full property tax to the city for all but the arena portion of the project.

At present FCRC and other private owners control much of the land on the arena site; the MTA and the city own the rest. In order to establish nominal public ownership so that the site is exempt from real property tax, while preserving FCRC's control of the development, a complex leasing structure will be created. Under the agreements between FCRC and the state, the private property not already controlled by Forest City Ratner will be acquired by ESDC using eminent domain, with the developer paying for the compensation of the displaced owners.[6] Forest City Ratner will then transfer ownership of all of the previously private property plus the MTA land that it will acquire to ESDC. After accepting the transfer of the city street beds and parcels, ESDC will then provide a 99-year ground lease to Forest City Ratner of the entire assembled site. Initially ESDC will lease the site for the term of the bonds to the local development corporation created to issue the tax-exempt bonds, which in turn will sublease the site to FCRC for $1. Once the bonds have been repaid, Forest City Ratner will lease the site directly from ESDC (again for $1). The lease will require the arena to serve as the home of at least one professional team during the term of the bonds—most likely 30 to 40 years.

Loss of Current Property Tax. The private property in the arena site that will be transferred to FCRC is currently generating city property tax revenue and would presumably continue to do so in the future if the arena were not constructed. Therefore, foregoing this revenue adds to the current budget costs of the project for the city. IBO estimates that over 30 years, the present value of that lost revenue is $13 million.[7]

Below Market Cost of MTA Rail Yard. While it does not have an effect on IBO's fiscal impact calculations, the below market sale price of the rail yard does represent a lost opportunity for additional revenue for the MTA and a special benefit for the developer. Forest City Ratner had originally agreed to pay $100 million in cash for the rail yard as well as build a replacement yard with added capacity and improved configuration over the existing yard. The cash value of the FCRC bid was $50 million less than a bid made by another developer, Extell Development Company, although the improvements promised by Forest City Ratner were estimated to be worth more. An independent appraisal of the rail yard done for the MTA estimated the value at $214 million, after taking into account the cost of building a platform over the yard to unlock the site's development potential.

With project costs escalating, Forest City Ratner recently asked the MTA to reduce the purchase price. In June, the board of the transportation authority agreed to new terms for the 8.3 acre rail yard, which covers more than a third of the Atlantic Yards site. Under the new agreement, Forest City Ratner will now pay $20 million for the 2.3 acres of the rail yard that sit directly under the planned site of the arena. A total of $184 million in deferred payments would be made over 20 years for the rail yard, which the MTA calculates as having a present value of $80 million. The new terms also reduce the improvements to the replacement yard and allow Forest City Ratner to withdraw from the purchase for a variety of reasons.

If the price to be paid by FCRC represents a discount from market value for the site, that amounts to an additional public subsidy for the project. One approach at estimating the extent of such a subsidy would be to compare the FCRC price with the value estimated by the MTA's appraiser in 2005. IBO has instead chosen to use the difference between the cash amounts in the Extell bid and the FCRC price, which results in a subsidy of $50 million. IBO attributes $10 million of that subsidy to the arena, with the loss borne by the MTA.[8]

Sales Tax Exemption on Arena Construction Materials. Under the latest modified project plan, ESDC will grant Forest City Ratner an exemption from city, state, and MTA sales tax on construction materials and fixtures installed in the arena. This is a discretionary benefit that state economic development law allows ESDC to grant to projects it sponsors. Based on an estimated hard construction cost of $604 million, IBO estimates that this exemption will save FCRC $20 million (present value), with $10 million coming from lost city sales tax revenue, $9 million in lost state sales tax, and $1 million in foregone MTA sales taxes.

Mortgage Recording Tax Exemption. Another exemption that ESDC may grant at its discretion is an exemption from city and state mortgage recording taxes that would normally be due when project financing is secured by a mortgage. By granting this exemption for the arena financing, ESDC will save Forest City Ratner a total of $26 million (present value) in recording taxes that would have otherwise been due.[9] The cost in city tax revenue is $13 million, $2 million for the state, and $11 million for the MTA.

ECONOMIC AND TAX REVENUE IMPACTS

The net fiscal impact for the city and state of a project such as the Atlantic Yards arena is estimated by comparing the cost of various discretionary subsidies the project received with the additional tax revenue resulting from the economic activity that the project is expected to generate. In the case of the Atlantic Yards arena, this activity includes the construction and operation of the arena, and the indirect economic activity induced by the arena's construction and operation. IBO estimates that the present value of the city, state, and MTA tax revenues generated in the city by the arena project would total $265 million through fiscal year 2039. Almost $6 million of the revenue would flow to the MTA and the remainder would be evenly split between the city and state.

Methodology and Key Assumptions. IBO estimated the economic and revenue impact of the arena in two steps. First, we used an input/output-based model of the tri-state metropolitan region to project both direct and indirect output, earnings, and employment impacts over the 30-year financing period for 2010 through 2039.[10] This period includes almost two years of construction before the start of arena operations during the 2011–2012 NBA season. The model accounts for the move of the Nets from New Jersey to Brooklyn. IBO assumes half of the money spent by Nets fans, concert-goers, and other spectators at the new arena and surrounding area would amount to an infusion of new spending into the New York City economy (the other half being spending shifted within the city by residents). This estimate assumes that a portion of existing Nets fans would travel to Brooklyn for games, and that a team in Brooklyn would be able to attract fans from Long Island as well as from the city. Most of the new spending occurring in the city, however, is spending that would otherwise have taken place elsewhere in the metropolitan region.

IBO's spending estimates are also based on basketball revenue projections consistent with an initial average ticket price of close to $60, which is in line with current average NBA ticket prices. Other assumptions include an average of 1,100 motorists paying $18 for parking during games. We also assume that half of the visits from other teams involve overnight stays in the city.

In the second step we used IBO's existing tax forecasting models to estimate the revenues that would result from the projected

Average Annual Impacts of Constructing the Atlantic Yards Arena and Relocating the Nets

	New York City	Rest of Metro	Total Region
Construction Phase (2010-2011)			
Employment	3,282	775	4,057
Personal Income	$198.4	$106.7	$305.0
Value-Added (GDP)	266.5	81.2	347.7
Full Operations Phase (2012-2039)			
Employment	955	(671)	284
Personal Income	$192.6	$(126)	$67.1
Value-Added (GDP)	42.0	(29.1)	12.9

SOURCE: IBO.
NOTES: Metro area is Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester Counties in NY; Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Passaic, Somerset, and Union Counties in NJ; Fairfield County in CT. Personal income and value-added in millions of 2009 dollars.

economic activity. In order to account for the time-value of money, the present value of the estimated flow of additional tax revenue over time was calculated using a discount rate of 6.0 percent—the same rate used in calculating the present value of the project's costs.[11]

Economic Impact of the Arena. IBO does not expect the combined direct and indirect effects of the new arena to produce a major impact on the regional economy. The arena project would entail a burst of construction activity and employment in calendar years 2010 and 2011, generating relatively large positive economic impacts both within and beyond New York City. After the construction phase, the city employment and output impacts from the operation of the arena would be smaller than during construction, and as noted the primary boost to the city's economy—the infusion of spending by arena spectators—would come in large part at the expense of spending in other parts of the regional economy.

In calendar years 2010 and 2011, the city's annual gross product (value-added output) on average would be $267 million greater than if the project did not occur, and there would be almost 3,300 more jobs on average in the city; about 1,900 of the added jobs in all sectors would be held by city residents. (All output and income impacts reported in this subsection are in terms of 2009 dollars.) Over half of the added employment would be in construction—1,860 jobs or 1.1 percent of the sector's workforce. Two other sectors would account for much of the other jobs added: retail (170 jobs) and professional and technical services (200 jobs).

During the two-year construction phase, economic impacts in the region outside of the city would also be substantial: $81 million in gross product and 775 jobs a year on average. The economies in these areas would be stimulated by the spending of commuters whose jobs would be created by the arena construction and purchases of building materials and other project-related goods.

The Atlantic Yards arena is scheduled to open with the start of the NBA season, toward the end of calendar year 2011. In subsequent years, when the arena is up and running, its economic impact would come solely from events taking place there. The annual impact on city employment during the operations phase—calendar years 2012 through 2039—would be about 955 additional jobs, with an estimated 700 jobs going to city residents. The performing arts and spectator sports sectors would account for 710 of the jobs created, many of them part time; almost all of the remaining jobs created would be in the eating and drinking, retail, and personal services sectors. The average impact on the city's gross product—$42 million per year—would be less than a sixth of the impact during construction. The average annual impact on personal income earned in the city, however, would be nearly the same in the construction and operational phases because the salaries of highly paid basketball players would now be counted in the city.

In contrast to the construction phase, during which there are positive economic impacts throughout the metropolitan area, the arena's operation would have negative impacts in the metropolitan area outside the five boroughs. From 2012 to 2039, there would be an average of about 670 fewer jobs, $126 million less in personal income earned and $29 million less in the gross product of the region's counties outside of the city. New entertainment and leisure spending in the city comes at the expense of spending elsewhere in the region, resulting in a decline in economic activity outside of the city. This would affect not only the counties in northern New Jersey that would lose the benefits of having the Nets in the Meadowlands, but also neighboring counties in New York—particularly Nassau County—where residents are expected to supply the bulk of the new spending that the Atlantic Yards arena draws into the city. The negative economic impacts outside of New York City would offset much of the positive impacts in the city.

Tax Revenue Impact. The positive effects of the arena's construction and operation on the city's economy would in turn generate additional city, state, and MTA tax revenue. The total tax revenue that would be added from fiscal years 2010 through 2039 has a present value of $265 million—almost $130 million each for the city and state plus almost $6 million of MTA-dedicated tax revenue.

For both the city and state, the largest source of tax revenue would be personal income taxes. For fiscal years 2010–2039, the present value of city and state personal income tax revenues, respectively, would be $39 million and $97 million. The projected stream of state personal income tax revenue is greater than the city revenue in part because of the state's higher income tax rates. But much of the difference is attributable to nonresident incomes being taxed by the state but not the city. All those who earn income at the arena—players, executives, coaches, other Nets staff, other arena workers, and players on visiting teams—must pay New York State's income tax on the money earned in the state, regardless of where they live. Only New York City residents pay the city's personal income tax, so players and others who live outside the city would not incur any additional city income taxes if their work site were to move to New York.[12]

The boost to the city economy would also yield modest increases in revenue from its real property tax ($40 million, present value),

Net Present Value of Benefits and Costs from Fiscal Years 2010 Through 2039

Dollars in millions

	City	State	MTA	Total
Tax Revenues	$129.9	$129.7	$5.8	$265.4
Costs to Current Budget	(169.4)	(104.3)	0.0	(273.7)
Net Fiscal Benefits	**$(39.5)**	**$25.4**	**$5.8**	**$(8.3)**
Memo: Opportunity Costs	$(180.5)	$(16.2)	$(22.2)	$(218.9)

SOURCE: IBO.
NOTES: Tax revenues from new economic activity within New York City. Costs to the current budget are direct government expenditures or existing revenues lost on behalf of arena. Opportunity costs are potential arena-related government revenues foregone as benefit to arena.

its business income taxes ($23 million), and its general sales tax ($21 million).[13] Although the arena itself would be exempt from property tax, the additional economic activity would result in an increase in property values elsewhere. Because of lags in the city's assessment process, there would be no additional property tax revenue until 2012. Apart from the personal income tax, the state would enjoy added revenue from its general sales tax ($18 million) and its business taxes ($8 million). Surcharges on those state taxes would account for the bulk of the MTA's estimated $6 million revenue gain.

Because of the negative regional impacts discussed above, IBO believes that there would be little net new local, state, and MTA tax revenues associated with the arena beyond the revenues generated in New York City.

NET FISCAL COST

IBO's primary focus in this analysis is to estimate the effect of the arena project on the city's budget over time. Under the latest Atlantic Yards project plan, the arena would cost the city's budget $169 million (present value) over 30 years. These costs exceed the $130 million in new revenues from economic activity IBO expects the arena would generate for the city over 30 years. The net result is a loss of nearly $40 million (present value) for the city over the period examined.

While the projected revenues from the arena for the state would be nearly equal to the revenues generated for the city, state spending on the project would be less than local spending. The $130 million in new state revenue exceeds the $104 million in spending under the state's current budget. For the state, then, the arena project results in a net gain of $25 million over 30 years.

The project also includes a number of provisions that reduce the level of new government revenues the arena could potentially generate. These foregone gains, which we have called opportunity costs, total $181 million for the city, $16 million for the state, $22 million for the MTA, and an additional $194 million for the federal government. These are costs not in the sense that they make the projected fiscal bottom line worse, but in that without them the bottom line would be better. In the city's case, instead of a fiscal loss from its arena investment there would be a substantial net gain.

This report prepared by David Belkin, Ana Champeny, Michael Jacobs, and George Sweeting

ENDNOTES

[1]If the school is needed to serve the residents of the new Atlantic Yards buildings, FCRC would build it as part of the project construction, although the city would cover the costs.
[2]The property amounts to approximately 61,625 square feet. The value is based on a price of $60 per square foot, which takes into account the citywide drop in property prices. In IBO's 2005 fiscal brief a calculation error led to a significant underestimate of the value of street beds to be transferred.
[3]In the case of the parcel on block 1118, the finance department's market value estimate skyrocketed from $1.7 million on last year's tax roll. Interestingly, while the property is shown in the public tax records as being owned by the city, the property is not tax-exempt, with tax payments made by the Department of Housing Preservation and Development.
[4]This estimate assumes the sale of $678 million in tax-exempt bonds with an interest rate spread of 2.31 percentage points between ESDC tax-exempt bonds and taxable bonds sold by FCRC.
[5]IBO's property tax simulation started with a projected assessment based on the cost of the new arena and the land underneath. We then allowed for modest annual growth in the assessed value of the improvements, net of depreciation. Finally, the estimated revenue loss took into account the value of the Industrial Commercial Abatement Program, which is an as-of-right benefit that would be available to any developer building a privately owned facility at the rail yard.
[6]One of the changes between the 2006 modified project plan and the latest version is that the use of eminent domain could now occur in phases. The first phase would be associated with the arena, but subsequent actions would occur once the larger project proceeds. This change diminishes the possibility of unnecessary takings if the full project is altered or reduced; it also conserves FCRC's cash, at least in the short-term.
[7]Because land assessments for Atlantic Yards properties have grown so sharply in recent years, IBO's estimate of the lost property tax revenue used tax bills from 2007 with annual growth of 2.5 percent.
[8]The arena portion of the subsidy was estimated at 20 percent, based on the latest MTA/FCRC agreement's allocation of $20 million payable for the arena portion of the rail yard and $80 million for the balance.
[9]IBO's estimate is based on the use of $801 million in taxable and nontaxable bond financing, which was estimated by using the share of bond financing anticipated in FCRC's 2006 financial analysis and the 2009 modified project plan total arena project cost.
[10]We used the Regional Economic Models, Inc. PI+ model fot the analysis. The region comprises New York City and Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester Counties in New York; Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Passaic, Somerset, and Union Counties in New Jersey; and Fairfield County, Connecticut.
[11]Due to the positive time-value of money, the potential returns accruing to a dollar gained today make it worth more than a dollar gained in the future.
[12]IBO has assumed that the Net's move from New Jersey to New York would not initially alter where players and team staff would live. As a result, city personal income tax liabilities of those whose jobs are moving would at first be unaffected (although this would be less so over time), while those living outside the state would have more income earned in New York and thus incur more state income tax liability.
[13]Since we are counting the loss of existing arena site property taxes on the cost side of the fiscal balance sheet, we are not taking it out of our estimate of citywide property tax impacts on the revenue side.