September 21, 2007

Norman Oder
Atlantic Yards Report

Dear Mr. Oder:

Per your request, IBO has prepared estimates of the fiscal costs of the city and state decision giving Forest City Ratner Companies (FCRC) access to tax exempt bond financing for construction of the basketball arena portion of the Atlantic Yards project. In IBO’s 2005 analysis of the fiscal impact of the Atlantic Yards project [http://www.ibo.nyc.ny.us/iboreports/atlyards_fbsept2005.pdf] we had noted that there would be moderate fiscal costs associated with this financing, although at the time we were not prepared to offer a specific estimate.

Allowing FCRC to use tax-exempt bonds to finance the arena construction saves FCRC money because tax-exempt bonds generally pay a lower interest rate than taxable bonds, which results in debt service savings for the developer. In addition, because the interest is exempt from income tax, there are costs to the city, state, and federal governments equal to the tax revenue that they would have collected had the interest been taxable.

In estimating these costs, IBO assumed that the cost of the arena would be $637.2 million and that the entire project would be financed with tax-exempt bonds. Note that in our 2005 study we had pointed to a potential constraint under the Internal Revenue Code that might have limited the portion of the project that could qualify for tax-exempt financing. A recent ruling by the IRS regarding the financing for the new Yankee Stadium appears to clear the way for most, if not all, of the arena construction bonds to qualify for tax-exempt status. Our estimate assumes that the entire $637.2 million will be financed with tax-exempt bonds. The bonds were assumed to be 30 years with level payment and an interest rate of 4.5 percent. The estimates below are the 30 year net present values, using a discount rate of 6 percent.

Under these assumptions, the savings for FCRC are estimated at $82 million. The projected cost in foregone tax revenue for the city is $5.2 million over 30 years. The corresponding costs for the state and federal governments are $9.5 million and $103.7 million.
If you have any further questions regarding this matter, please contact me at georges@ibo.nyc.ny.us, or at 212-442-8642.

Sincerely,

George V. Sweeting
Deputy Director