Testimony of Doug Turetsky
To the New York City Council
Committees on Finance and State and Federal Legislation
On the Madison Square Garden Tax Exemption

March 22, 2005

Good afternoon Chairmen Rivera and Weprin and members of the committees. I am Doug Turetsky, chief of staff and communication director for the New York City Independent Budget Office. Thank you for inviting IBO to testify at today’s hearing.

Since 1982, Madison Square Garden has received a total exemption from paying property taxes to the city. IBO estimates that the exemption will cost the city $12 million in foregone tax revenue in fiscal year 2006. We estimate that the total, inflation-adjusted cost to the city over the 23 years the exemption has been in place is $237 million.

It is not clear the exemption was meant to continue for so long. Typically, when the city provides a tax exemption it is for a fixed period of time. According to published reports, then-Mayor Edward Koch thought he had agreed to a 10-year exemption. This would be consistent with the city’s usual economic development policy of providing an exemption for a given period of time in order to subsidize construction or some other element of a project. This is how the city’s Industrial and Commercial Incentive Program and other economic development programs usually work.

But when the enabling legislation for the Madison Square Garden tax break was written and approved in Albany, the exemption had become permanent so long as both the Knicks and Rangers play their home games at the garden.

Keeping the two teams in the city, and making it possible for us to continue to reap the fiscal benefits of taxing the spending of the teams and their fans, was the reason for providing the exemption. But the exemption subsidizes nearly all the activities at Madison Square Garden, including the trade shows, circus, concerts, ice shows, and other performances. This makes the exemption both broader than the purpose for which it was intended and, by extension, more costly.

Given that the exemption was specifically intended to keep professional basketball and hockey teams in the city, the cancellation of the National Hockey League season presents an interesting twist on the garden’s break for this year. As stated in the section of the New York State Real Property Law relating to the Madison Square Garden exemption: “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 should be taxed pro rata for the unexpired portion of the taxable year.”

The clause seems to suggest that at least in the current year, when no hockey is being played, the city could be collecting property taxes from Madison Square Garden. This would be in accord with the reason for granting the exemption in the first place, since in a year with no hockey there is no associated economic activity from which the city benefits.

Regardless of how one feels about interpretations of this clause, or whether or not the exemption should continue at all, the history of the Madison Square Garden tax exemption illustrates the problems that can occur when special breaks are given outside the city’s standard economic incentive programs. One property now has a tax exemption that stands apart from the terms that typically guide city tax expenditure policy.

Thank you again for the opportunity to be here today and I would be glad to answer any questions.