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Economic Development Committee

How Will the Proposed West Side Stadium Complex Impact Our City?

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The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. Thank you for the opportunity to present FPI's views on this topic.

It is hard to evaluate the City's proposal for the West Side Stadium (the "New York Sports and Convention Center" or NYSCC) by itself since the City has presented it as part of the broader Hudson Yards proposal that includes the expansion of the Javits Center and the rezoning of the area east of 11th Avenue. The rezoning is intended to facilitate intensive commercial and residential development in the area to the north and east of the NYSCC and the Javits Center (this area is referred to here as the Hudson Yards redevelopment). Arguably, since the NYSCC is proposed, in part, as an extension of the Javits Center, and since its location on the West Side of Midtown only makes sense if served by mass transit, it should be considered as part of the overall Hudson Yards project. Our comments, therefore, will encompass all three parts of the broader proposal.[1]

Our initial assessment of the Hudson Yards plan has focused on the proposed *public financing as it affects the City of New York*. The three-part Hudson Yards project calls for \$6.8 billion in up-front, largely public financing. The NYSCC will require \$1.4 billion, the Javits expansion \$1.4 billion, and the City is proposing a \$4.0 billion investment in infrastructure (mainly the extension of the #7 subway line) and public amenities for the Hudson Yards redevelopment. Of the \$6.8 billion total[2], only \$1 billion will be privately financed. On the public side of the ledger, the City

[1] FPI has not taken a position for, or against, the NYSCC or the overall Hudson Yards development. As of this writing, FPI has not undertaken an analysis of the economic feasibility of the stadium, the Javits Center or the proposed rezoning. Given the scale of these proposals, it is critical that there be an informed and broad-based public discussion of the implications of the Hudson Yards project for the City's long-term economic, community development, and housing needs.

[2] Not included in this figure are the costs of Phase 2 of the Hudson Yards redevelopment proposal (an estimated \$500 million for the #7 subway station at 41st Street and 11th Avenue and the northern portion of the mid-block boulevard running between 10th and 11th Avenues) or the costs of Phase 2 of the Javits

will shoulder \$4.65 billion and the State \$1.15 billion. Based on current information, it appears that this entire \$5.8 billion in City and State funds will be borrowed through a variety of bond sales by existing and yet-to-be created financing entities. The \$5.8 billion represents the principal to be borrowed; interest costs will be additional.[3]

The major City investment is the \$4 billion for the Hudson Yards redevelopment component that entails the infrastructure and amenities for the land being rezoned for intensive commercial and residential development. The City also will borrow \$350 million, backed by revenues from the Battery Park City Authority, to finance its share of the Javits expansion, and \$300 million for the stadium roof and part of the platform over the west rail yards for the NYSCC. The City has not yet indicated the revenue source that will cover its \$300 million share of the NYSCC.

With regard to the City's proposed financing, there are at least four questions that we would suggest the Council should keep in mind:

(1) What are the opportunity costs posed by the City financing?

Since the City is not proposing to fund all of its costs out of the revenues projected for the Hudson Yards, some of the city's financing will, in effect, divert budget resources that could have funded other City priorities. This is true for the Battery Park City funds[4], and might be the case for the resources not yet identified that will fund the City's \$300 million share of the NYSCC.[5]

(2) What are the risks to the City budget and finances?

By selling \$4.65 billion in new Hudson Yards-related debt over the next few years, the City will be adding considerably to its outstanding debt. If the projected revenues from the East Yards redevelopment do not materialize according to plan, the City budget, directly or indirectly, might then be on the hook. Even though the project-related debt will be issued by special purpose entities, and not directly by the City, it is seems unlikely the City would permit a default to occur. As it is, part of the proposed financing already uses the Transitional Finance Authority to provide credit enhancement for up to \$1 billion in commercial paper debt that will be needed to meet interest payments on the infrastructure borrowing until sufficient project revenues are generated 12 years or so into the project.

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expansion. Graham Rayman, "Wall Street's Worries, Finance firms make it clear to city officials that planned stadium complex faces serious economic risks," Newsday, May 31, 2004.

[3] For example, the City indicates that the total debt service over 40 years for the \$4 billion borrowed by the Hudson Yards Infrastructure Corporation will be \$10 billion. Office of the State Deputy Comptroller, Review of the Mayor's Executive Budget for Fiscal Year 2005, May 2004, p. 50.

[4] In this connection, see, City of New York Independent Budget Office, Letter from Deputy Director C. Preston Niblack to Joe Weisbord of Housing First, May 18, 2004.

[5] There are also opportunity costs related to the specific development proposal since, to some extent, intensive office and residential development on the West Side will come at the expense of development elsewhere in New York City.

(3) Will the growth occurring on the West Side pay for City services?

This is a long-term development project that will necessitate City expenditures for public safety, sanitation and the full array of other essential services. Yet, for the first several years, the project will generate very little in the way of City tax revenues. The City is proposing to enter into PILOT (payments in lieu of taxes) agreements with developers that will channel in-lieu-of-payments for property and sales taxes to pay project debt service, rather than general revenues that could fund City services. If the development unfolds on or close to the scale and the schedule envisioned by the City's proposal, business and personal income taxes will be generated that could fund City services. While the City estimates these general revenues at $60-$70 billion, it has so far not provided the details of those revenue projections.

(4) What are the implications for New York City tax and economic development subsidy policy?

One of the issues of great concern to us is the proposed tax subsidy policy for the Hudson Yards area. On the one hand, the City points to studies showing that the project will help New York City capture a significant share of the growth in office demand over the next several decades. On the other hand, the City is proposing a Uniform Tax Exemption Policy (UTEP) that will subsidize that development across the board. The City expects all office developers to sign up for UTEP because they are making it financially attractive to do so. Under UTEP, office developers will receive: a built-in reduction in property taxes; a very small annual increase to reflect but not capture market appreciation; and protection against any general property tax rate increases.

Here is the great paradox in the City's proposal. With the City assuming enormous risks in developing the West Side, and making multi-billion investments in infrastructure and amenities, why would the City need to also provide substantial tax breaks to attract new development? Under the City's vision for the project, development unfolds gradually over a long period of time. That is understandable. But why assume that sizable subsidies will be needed? Shouldn't we wait to see how strong market demand is, and shouldn't the pace of development be adjusted to closely reflect the strength of market demand?

The City has had a very problematic history of providing economic development subsidies. UTEP would only institutionalize those problems and could set in motion unrelenting pressure on commercial property taxes that might further jeopardize the City's tax base. Of course, if the City lessens the attractiveness to developers of the PILOT agreements, then it diminishes the adequacy of the backing to repay the Hudson Yards debt. One way or another it seems, the Hudson Yards project is really a core City budget issue entailing a series of revenue and expense tradeoffs.

There are many issues here that the Council should carefully consider over the coming months as the City proposal moves forward. Thank you for the opportunity to comment at this stage.

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