ONE HUNDRED TENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5051
FACSIMILE (202) 225-4784
MINORITY (202) 225-5074

www.oversight.house.gov

Opening Statement
Of
Dennis J. Kucinich, Chairman
Domestic Policy Subcommittee
Oversight and Government Reform Committee
Thursday, September 18, 2008
2154 Rayburn HOB
10:00 a.m.

"Gaming the Tax Code: Public Subsidies, Private Profits, and Big League Sports in New York."

This is the Domestic Policy Subcommittee's third hearing in the last year and a half on the federal government's subsidization of the construction of professional sports stadiums through the federal tax code. In our previous hearings, we showed that building sports stadiums does not make sense as a tool of taxpayer-subsidized economic development. From a state and local perspective, sports stadiums do not create jobs, and, in fact, they use resources that would be better expended elsewhere, such as on building schools and shoring up crumbling infrastructure. Rather, state and local governments compete with each other to lure or retain professional sports teams in a senseless race to the bottom for larger public subsidies subsidized by the federal taxpayer. As a result, not only are other, more important public safety projects ignored, such as repairing structurally deficient bridges and aging water distribution and treatment systems, but granting a federal tax-exemption to bonds issued to build these stadiums means more stadiums and more expensive stadiums are being built than if there were no federal subsidy. Furthermore, stadiums are essentially private. Sports teams are privately owned by extremely wealthy individuals. The practice of providing taxpayer subsidies to the building of sports stadiums is a transfer of wealth from the many to the wealthy.

This Committee is charged with exposing waste, fraud and abuse. In the case of the new Yankee Stadium, not only have we found waste and abuse of public dollars subsidizing a project that is for the exclusive benefit of a private entity, the Yankees, but also we have discovered serious questions about the accuracy of certain representations made by the City of New York to the federal government. This Subcommittee's still ongoing investigation has uncovered substantial evidence of improprieties and possible fraud by the financial architects of the new Yankee Stadium. The stadium project has already benefitted from the issuance of over $940 million of tax-exempt bonds. The tax-exemption on these bonds will save the Yankees well over $100 million in interest costs, a subsidy that will cost federal taxpayers almost $200 million in lost tax revenues. The City is now requesting that the IRS approve over $360 million in additional bonds to allow the Yankees to complete the stadium. These additional bonds would make the most costly publicly funded stadium in the United States even more exorbitant, all on the federal taxpayers' dime. At a minimum, our investigation has shown that these bonds should not be approved without further investigation.

Two wildly divergent valuations for the land under the stadium were submitted by City and State government officials to the federal government. In July 2006, the New York State Office of Parks submitted to the National Park Service an appraisal for $21 million of a 10.7 acre portion of McComb's Dam Park. This parcel constitutes the majority of the new Yankee Stadium site. State and federal law require that the City replace the park, which was destroyed to build the stadium, with one of at least equivalent value. The Park Appraisal arrived at the $21 million figure based on a rate of $45 per square foot. While land appraisals are complex, the Subcommittee has consulted with experts and has reached a provisional judgment that the Park Appraisal is, if not completely accurate, reasonable based on the comparable properties used to calculate value.

At the same time, New York City Industrial Development Agency submitted to the Internal Revenue Service a $204 million assessment of the stadium site that was conducted by the City's Department of Finance for largely the same land. This figure appears to be wildly inflated. The assessment is based on a valuation of the land at $275 per square foot, a rate roughly six teams the one used for the Park Appraisal and one that appears to be without justification according to principles of proper land valuation. It appears that the $275 rate was derived from comparison to assessments on much smaller lots (smaller lots are generally worth more per square foot) located in much more expensive neighborhoods in other boroughs, such as Manhattanville and Alphabet City, both located in Manhattan. The new Yankee Stadium is located, in contrast, in the South Bronx.

There is also substantial doubt to the $1 billion valuation of stadium itself. But here too it appears the City padded the assessment with questionable costs, including soft costs of $250 million or 25% of stadium costs, which is high. These findings and conclusions are consistent with the preliminary findings of the investigation conducted by New York State Assemblyman Richard Brodsky, a witness at today's hearing.

Finally, there is reason to question whether the projection of the tax assessments that the City's development agency provided to the IRS is based on an unsupportable estimate of the future value of the stadium. Typically sports stadiums lose some of their value over time as they become obsolete, a process that usually lasts less than 40 years. But the City makes the highly suspect claim that the stadium never depreciates. Rather, they assert that it gains three percent in value a year through 2046: there is no decline in value projected.

Taken together, the consequence of these three assertions is an inflated assessment figure. That allows the City to claim that the payments that will be made by the Yankees for debt service and known as "payments in lieu of taxes" satisfy the Treasury regulation that the IRS applies in its consideration of whether this project is eligible for tax-exempt bonds.

If the City properly assessed the value of the stadium site and thes stadium itself, most likely either a smaller stadium would have been built or the Yankees would have been forced to contribute a larger share of the costs of the project, and the publicly financed share would have been smaller.

So the question this Subcommittee is investigating is whether the New York Yankees and New York City officials collaborated in a scheme to mislead the Internal Revenue Service in order to pass more of the costs of a fancy new stadium onto the federal taxpayer.

We had hoped that representatives from the New York Yankees and the New York City Industrial Development Agency, the key players in arranging this deal, would have participated in this hearing and given us their perspectives on the policy and factual issues. But they were unavailable and to accommodate their schedules, we will hear from those witnesses at a later date. The assessment issues are complex, and our inquiry is incomplete, in large part because the Yankees and the City have repeatedly failed to comply with our requests to produce documents about the assessments.

We will continue our investigation.