Seth W. Pinsky

Testimony

Washington, D.C.

October 24, 2008

Thank you, Chairman Kucinich and members of the Subcommittee. On behalf of New York City Economic Development Corporation and New York City Industrial Development Agency, I thank you for the opportunity to testify.

I have been invited today to discuss the use of tax-exempt bonds in connection with the financing and construction of the new Yankee Stadium.

Across the street from the House that Ruth Built, a great new monument is nearing completion. The Yankees report that the new stadium will officially open on April 16th with a game against the Cleveland Indians.

The new stadium will allow millions of people to enjoy the nation's pastime for decades to come. More importantly, by the first pitch, this project will have pumped hundreds of millions of dollars into the City's economy, employed thousands of unionized construction workers and spurred substantial investment in new parkland, transportation and other infrastructure in the South Bronx.

Recently, you have heard from opponents of the project claiming that it would not deliver on the public benefits promised; that its cost to taxpayers was greater than disclosed; that it improperly accessed tax-exempt financing; and that the process itself was somehow incomplete or opaque.

Today, I am pleased to have the opportunity to counter these assertions. Let me take a moment, though, for a little history.

One of Mayor Bloomberg's first acts upon taking office was to terminate previously-negotiated deals between the City and the Yankees -- deals that would have provided for a new stadium funded almost entirely out of City capital funds.

Immediately following this, the parties entered into nearly 4 years of difficult, sometimes contentious, negotiations before reaching an agreement in 2006 calling for a modified Stadium project, funded out of proceeds from tax-exempt bonds backed by payments in lieu of real estate taxes, or "PILOTs," from the Yankees.

Though some opponents of this project have implied that this structure is somehow sinister or novel, the fact is that it is consistent with nearly 100 years of federal tax policy, starting with the first federal income tax in 1913.

From that point on, it has been recognized that interest income earned on bonds issued by state and municipal governments and secured by state and municipal tax receipts – including payments in lieu of those taxes – would be exempt from federal taxation provided that the proceeds were devoted to a valid governmental or public purpose.

It is worth noting that both Congress and the Courts have consistently recognized that the determination of what constitutes such a purpose has always been in the discretion of the applicable state or municipal government. In the words of the Joint Congressional Committee on Taxation in March 2006: "Present law does not define the governmental or public purposes for which governmental bonds may be issued."

Over the years, the governmental or public purposes to which municipal tax-backed, tax-exempt bond proceeds have been devoted have run the gamut from parks, roads and bridges, to sewers, and yes, economic development.

In fact, our very cursory research indicates that tax-exempt bond deals devoted to economic development projects have run into the billions of dollars in the last few years. For example:

- In the last decade, more than $1 billion in tax-exempt bonds backed by sales taxes have been issued in Ohio to construct new stadiums for the Cincinnati Bengals and Reds.

- In Indiana, since 2005, more than $650 million in tax-exempt, appropriation-backed debt has been issued to construct a new stadium for the Indianapolis Colts.
- And here in Washington more than a half a billion dollars in tax-exempt debt has been issued since 2002 to build a number of projects, including a home for the Washington Nationals, three hotels and two shopping malls.

In fairness to the opponents of this project, though, there is one difference between all of these projects and the Yankee Stadium project. Namely, unlike in the cases cited above, the Yankee Stadium project succeeded in deploying this federally-created tool to encourage economic development in what the 2000 census determined to be the <u>single, poorest Congressional district in the United States</u>.

And we are not just proud of the project's ends. We are also proud of the means employed to get there. The benefits of this project have been validated in one of the most thorough and transparent approval processes in the history of New York City, New York State, and likely the nation, including vetting at nearly 20 public hearings and approvals occurring at virtually every level of government. Just to name a few examples:

- This project was subject to public hearings prior to receiving approvals from the Bronx Borough President, the City Planning Commission, and City Council – which approved the project by a margin of 42 to 2, and approved the repayment structure of the bonds by a margin of 46 to 3.

- Meanwhile, The City's Industrial Development Agency conducted its own review process, including a rigorous cost-benefit analysis that projected that the City would net approximately $41.3 million from the project. This culminated in a lengthy public hearing and approval by the IDA's Board of Directors, which was appointed by both Republican and Democratic elected officials.

- At the State level, the legislature authorized the alienation of 13.5 acres of parkland to the Yankees by a vote of 61 to 0 in the Senate and 146 to 0 in the Assembly. The State also contributed approximately $75 million to the project, requiring approvals from the Governor and Legislature.

- Finally, at the federal level, in 2006, the IRS issued a letter ruling affirming the tax-exempt status of the bonds contemplated to be issued in connection with this project. Subsequently, the IRS proposed regulations that would make technical changes to how the payments backing similar bonds could be structured in the future. However, we are pleased that, this week, the IRS revised these regulations to permit the structure used for the Yankees financing to be used for projects already in the pipeline, including most importantly from the City's perspective, the Atlantic Yards project in Brooklyn.

And here, one fact needs to be emphasized: At no time has the IRS – or anyone else with appropriate authority – said or implied that tax-exempt bonds could not be backed by PILOT payments, could not be used for economic development projects, or they could not be used for stadium projects.

The bottom line is that the new Yankee Stadium represents a $1 billion plus investment in the South Bronx, backed entirely by payments from a private organization.

The Yankees currently project that it will catalyze 1,000 new, full-time and part-time, permanent jobs and more than 6,000 new, unionized construction jobs. In addition, to date, it has resulted in approximately an additional $132 million in construction contracts let to Bronx-based companies, and $305 million let to New York City-based companies – sums that cannot be taken lightly in this era of economic uncertainty.

As importantly, the project has spurred complementary public investment in parkland, open space, waterfront access, a modernized sewer system and a new transit station.

Finally, the taxpayers of New York City will be served by the new Stadium project because the City will get out from under the projected $40+ million net maintenance liability for which it was responsible at the existing 85-year old, deteriorating facility.

In conclusion, I want to emphasize that the new Yankee Stadium project is a landmark accomplishment. Projects like this are the reason that this type of financing exists. Absent the use of this tool, this project would have either created substantially fewer public benefits, not have happened in the South Bronx, or simply not have happened at all.

We are, therefore, proud of this project, as well as the process leading up to its construction.

We look forward to answering any questions that you may have.

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