ESTIMATED FISCAL IMPACT OF FOREST CITY RATNER'S BROOKLYN ARENA AND 17 HIGH RISE DEVELOPMENT ON NYC AND NYS TREASURIES

by

Jung Kim, MS London School of Economics and
Gustav Peebles, Ph.D., Columbia University

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CONTACT INFO:
jwkim48@yahoo.com
gp2119@columbia.edu

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EXECUTIVE SUMMARY

The only analytic document released to the public by FCRC relating to its massive new planned undertaking at the Brooklyn Atlantic Yards [BAY] has itself predicted that the arena will be a money loser for the city's and state's taxpayers. And yet, FCRC's report—commissioned from Professor Andrew Zimbalist of Smith College, Massachusetts— argues that the project as a whole will benefit the city due to income associated with the project's less often discussed 17 residential and commercial towers. The following report argues otherwise.

In addition to the $449.34million that the City and State are *giving* outright to the project, the developer will utilize the threat of eminent domain from the state in order to obtain land that he could readily buy on the open market. For the remaining land, he will receive a no-bid contract for state property in the form of the MTA rail yards, again bypassing the market at taxpayer expense. All of these factors and others elucidated in this report represent manners in which this project is completely failing to follow a free market model. Additionally, the city and state will subsidize his development in the form of tax abatements and infrastructure provisions such as schools, fire and police for an estimated 9,450 new residents and transportation for the estimated 57,425 subway riders and 23,000 additional cars coming in and out of the neighborhood each day.

Given the undeniable housing crunch in New York City, why would we subsidize a massive real estate development that can turn an easy and hefty profit without our aid? FCRC projects in its report that "the average annual income of households in the new community will be between $80,000 and $90,000." Keeping in mind that the median household income for all of Brooklyn is $35,000, we must ask, why is the city supporting the use of eminent domain and offering substantial subsidies to ensure that a private developer can profit off of the construction of luxury housing?

Bruce Ratner claims that the BAY Project will bring in 10,000 permanent jobs. Even using the most conservative numbers included in FCRC's own report, this yields a cost per job of $44,934. This is 28% higher than the reported $35,000 federal government limit on cost per job created for projects receiving economic development funds (our report shows that this figure could easily surge into six figures). Given the 43% vacancy rate of comparable commercial space across the street from the BAY project and FCRC's own troubled history occupying its space at both Metrotech and Atlantic Mall, there is little evidence that the jobs promised by FCRC will ever become a reality.

The following point-by-point analysis of FCRC's planned project will demonstrate that despite claims that it will bring the city and state $812.7 million, in fact, this project will cause a net loss to New York City and State taxpayers of up to $506 million. Our estimates relating to this loss reveal that taxpayers could easily be paying anywhere between $674.9 million to $1.027 billion in subsidies to the developer.

It is imperative that our elected and non-elected government officials involved in this undertaking base their decisions on independently derived figures, such as those from the U.S. Census or the State of New York featured in our report. The public needs accurate economic information and rational, open planning and discussion to determine whether this project should move forward. We hope this report provides one step in that direction, by allowing the press, our public officials and citizens to compare these two economic studies of the BAY project and thereby make informed decisions about New York City's future.

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"Few fields of empirical economic research offer virtual unanimity of findings. Yet, independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically significant positive correlation between sports facility construction and economic development" (Zimbalist & Siegfried 2000:103)

"A stadium is a public investment in real capital. As such, the rules for sensible public investment apply to stadium finance as much as they apply to public provision of highways, schools, and airports" (Coates & Humphreys:17)

1.0 INTRODUCTION

1.1 On May 1, 2004, Forest City Ratner Companies (FCRC) released a paper they had commissioned; entitled "Estimated Fiscal Impact of the Atlantic Yards Project on the New York City and New York State Treasuries," it was written by Dr. Andrew Zimbalist, Professor of Economics at Smith College. In this FCRC document, Dr. Zimbalist came to the conclusion that the proposed development would produce a net positive fiscal impact with a present value of $812.7 million. We have chosen to review the FCRC paper with the critical social scientific perspective that a subject of such magnitude merits. As our report will demonstrate, we have good reason to draw entirely different conclusions from Dr. Zimbalist by using data and assumptions that we believe more accurately reflect the present condition and the future impact of the Brooklyn Atlantic Yards (BAY) project. Always relying on conservative assumptions (and providing sensitivity analyses), we still estimate that **taxpayers will lose anywhere from 115.2 to 506.2 million dollars**. It is important to note that these figures don't even include a range of subsidies and costs that we believe will be incurred by the project, such as those related to traffic, sewage and health, nor does it rely on any subsidies generated by counterfactuals.[1]

[1] So-called "counterfactuals" are standard operations in economic projections, though Dr. Zimbalist hasn't highlighted them in his assessment. In the case of BAY, there are numerous potential counterfactuals that might show an increased gain to tax payers if we gave our money to another project instead of FCR's proposal (e.g., an open-bidding

1.2 We wish to note that, with the BAY project, New Yorkers and New Jerseyans are facing an undertaking that people on all sides of the argument agree will forever alter the face of the Brooklyn, and for this reason alone the project necessitates serious public scrutiny. So far, the *only* public document presented to taxpayers on the impact of BAY has come straight from the developer itself, in the form of the FCRC Zimbalist report. Based on the optimistic conclusions of this report, many politicians have seemingly signed off on the massive 10-15 year project. Since the report remains the primary source of authoritative data on the project, we will be utilizing and criticizing it a great deal in order to produce our own report. However, we underline here that we are less interested in rebutting the FCRC report than in providing the public with competing interpretations of the economic impact of the BAY project, and thus allowing the taxpayers, the press and our politicians to draw their own conclusions about the value of the project rather than being forced to rely solely on a report issued by the developer.

1.3. In that spirit, we have undertaken a great deal of research in order to produce this report on BAY's impact on our city and state finances; we have also gained much helpful insight from independent outsiders, such as sports economists at universities across America and non-profit think tanks that study issues related to the BAY project. We are thus now in a position to inform the citizenry of New York, the press and our elected and unelected officials of the myriad problems with the numbers so far released by FCRC and Dr. Zimbalist. In this introductory summary, we alert you to what we see as the four most significant problems that have emerged out of our government and media's reliance on the FCRC report. These problems are outlined in the following sections 1.4 to 1.7.

1.4 **Problem #1**. Much of Dr. Zimbalist's data is culled from biased or unsubstantiated sources, including data from consulting firms hired by FCRC or from FCRC itself, as Dr. Zimbalist himself admits throughout the paper. We contacted him several times in order to try to get precise citations for the numbers he produces, but all our efforts were in vain. New York faces some very tough decisions about this project, and we must have solid data in order to make these vital decisions. But given the limitations of his source material, Dr. Zimbalist's paper does not represent a classically objective social scientific investigation. Much of what follows in this document will be a methodical breakdown of why some of his figures are misleading or even plain wrong.

1.5 **Problem #2**. Related to the above are many instances where we question his foundational assumptions. In this regard, we have drawn upon a trove of research by various sources, including Community Districts, the State Comptroller, direct interviews,

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process on the rail yards). In economic analysis, whatever the difference between the most profitable counterfactual and the given return of the project being analyzed counts as a subsidy. Thus, e.g., if we showed that our money would return hundreds of millions of dollars more if we skipped the arena component (something that Dr. Zimbalist in fact shows in his own report, but doesn't illuminate), then that foregone revenue of the better investment counts as a subsidy to Forest City Ratner and an additional cost to the city and state.

and the valuable research of New York State's many excellent non-profit organizations. We will carefully guide you through many of Dr. Zimbalist's assumptions and provide you with specific data that will call these assumptions into question. **By re-analyzing the data and the assumptions, we come to much more negative conclusions regarding the impact of the entire 17 high-rise and arena BAY project on our delicate city and state finances, conclusions that we find both eminently plausible and fully defensible**. All our data will be cited with clear provenance so that they can be fact-checked, a testimony to our commitment to the transparency that has been denied to the New York public by FCRC and often, sadly, by our own government.[2]

1.6 **Problem #3**. Beyond these foundational critiques, we would like to draw your attention to another significant aspect of Dr. Zimbalist's report: his conclusions. For even if you hold that all our above critiques are unfounded, you will find that the FCRC report tells you something that the company does not want you to notice: **the arena, even according to Dr. Zimbalist, is a money-loser for the city and state**, just as was the case with all the previous sports facilities across America that he has studied. After reading our analysis, we urge you to contact Dr. Zimbalist and ask him directly. We assure you that he will tell you the exact same thing.

1.7 **Problem #4**. Our final point builds upon the question of subsidies and other forms of aid that FCRC is receiving from the city and the state. One thing has become quite clear in the many months since this project was first announced to the public: **it is not a project that builds upon free market principles**. The developer will utilize the threat of eminent domain from the state in order to obtain land that he could readily buy on the open market. For the remaining land, he will receive a no-bid contract for state property in the form of the MTA rail yards, again bypassing the market at taxpayer expense. Additionally, the city and state will subsidize his development in the form of tax abatements, direct payments, infrastructure provisions, and other subsidies, several of which are readily denied to other developers and property owners in the area.[3]

1.8 Instead, we believe that the city that proudly stands as a beacon for free market principles to the world, the threshold for banishing its proven efficiencies and fairness should be quite high. Economists often point out that there is a time and place for government to opt to abandon the free market. That is when society needs the creation of "public goods" that the market cannot provide. Public goods such as roads, schools or police. One thing is clear about public goods though: the citizenry and their elected officials control them. If we are to abandon the free market in order to build the proposed towers and arena, let us at least ensure that they operate as our public good, rather than the private good for FCRC that our paper demonstrates them to be.

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[2] We utilize parenthetical cites, following the conventions described in *The Chicago Manual of Style*.

[3] To add to this list, it is worth noting that Dr. Zimbalist is himself well-known for complaining that all of America's sports leagues are de facto monopolies, thereby also subverting free market principles on a daily basis (cf. Noll & Zimbalist 1997).

1.9 Bureaucratic oversight of this massive project with implications for such basic services as our schools or subway capacity have been, for reasons unclear to us, completely neglected. Trust has mysteriously been placed directly in the hands of the developer. In place of an effective dialogue between our government, the developer and the public, it has been left to a handful of concerned and diligent citizens to clamor for a voice. This necessary analysis of the impact of the BAY project to the city and state finances of New York is but one example of this.

1.10 In closing our introduction, we would like to thank the many people who have helped make this report possible. In order to craft it, we relied on the expert research of independent think tanks, professors and non-profits such as Dr. Mindy Fullilove, Dr. Roderick Wallace, the Fiscal Policy Institute, Community Consulting Services and Good Jobs New York. Perhaps most importantly, our report has benefited greatly from the sharp eye and criticism of several professional economists: Drs. Rodney Fort (Washington State University), Lars Nesheim (University College London), Roger Noll (Stanford University), and Brendan O'Flaherty (Columbia University). As with all published reports, all mistakes discovered herein lie firmly in the hands of the authors, and are not to be attributed to anyone else.

2.0 METHODOLOGY

2.1 We should first note that this report is structured to work as both a stand-alone document and a piece that can be reviewed side-by-side with the FCRC report. The remaining sections of our report, 3.0 to 8.0, broadly follow the outline of the other work.

2.2 To compare our data and results directly against the FCRC report, we have attempted to reproduce Dr. Zimbalist's methods in order to isolate assumptions and their statistical impacts. This also allows us to conduct sensitivity tests on our own assumptions. In some cases, the exact details of Dr. Zimbalist's methodology are unclear. This is particularly the case with the 30-year projections for revenues and costs. However, we have created tables that yield minor errors of less than 1%; the difference in this regard is likely due to small factors such as the point in the year (beginning, middle, end) for which rate calculations are done.

2.3 Considering the complex array of factors involved in deriving this sort of data, we use Dr. Zimbalist's assumptions unless otherwise noted. There are certain factors, such as the proportion of Nets players who will live in New York City, that are difficult to predict or argue. And as this would also draw attention away from our key points, we accept such assumptions as is.

2.4 We accept the following details of the development scheme as gleaned from Dr. Zimbalist's report or from FCRC's other documentation:

1.9 million square feet of office space.

300,000 square feet of retail space.
1 arena seating 19,000 people.
4,500 residential units at an average of 1,000 square feet.

2.5 According to the above spatial data, we derive the following numbers for full-time equivalent jobs and residents:

7,600 office jobs (250 sq ft per worker)
1,250 retail jobs (250 sq ft per worker)
800 arena jobs (1,000 sq ft per worker)
9,450 residents (2.1 residents per unit)

The total of 9,600 jobs is roughly in line with the 10,000 figure bandied about by FCRC in the media. We emphasize that the job numbers are representative of commercial space rather than true job creation. This conversion of space to jobs only works when there is strong and proven demand for commercial space. In Section 5.0 Commercial Buildings, we make crucial critiques of Dr. Zimbalist's assumptions on office vacancy rate. The average household size of 2.1 is based on Manhattan Census figures, which we believe provide a better approximation of this high-rise residential development proposal for inner Brooklyn than the larger households of the borough as a whole.

2.6 More specific details on our methodology will be discussed throughout the relevant sections of the following analysis. In part, this is necessary since the critique of Dr. Zimbalist's methodology and assumptions forms the very crux of our report. To reflect the disparity between his methodology and ours, we will keep a running tally of the fiscal discrepancy in italics throughout the report.

3.0 REVENUE: THE ARENA

Income Tax Revenue

3.1 In his discussion of income tax revenue, not only from the arena but also from the commercial and residential components of the proposal, Dr. Zimbalist ignores the various ways that people can claim tax credits and exemptions. For example, many Nets players have agents and investment/tax advisors who will help channel their money toward retirement funds, investments (e.g., municipal bonds) and charitable donations so as to avoid paying the full tax. Office workers can reduce their taxes through a wide array of means: college fund, exemptions, TransitChek, etc. We propose a conservative cut of 5% across all income tax revenues to account for this issue. For this particular section, a 5% reduction would represent a PV [Present Value] of $6.8m.

$812.7m - $6.8m = $805.9m

Sales Tax Revenue

3.2 Dr. Zimbalist, in trying to ascertain the balance in the number of fans from New York and New Jersey who will attend games in Brooklyn, chances upon a fairly odd statistical method. He knows that 67.9% of Nets season ticket holders reside in NJ. To account for non-season ticket holders, he relies on data based on the state of residence of fans who attend New York Jets games at the Meadowlands, rather than extrapolate the above percentage. Any knowledgeable local sports fan knows that the Jets, due to their glory years at Shea Stadium and the historical territorial split between Jets and Giants fans, have a large chunk of their fan base in Queens and Long Island. To boot, we all know that football fans must travel to New Jersey to see the game live, which is hardly true for basketball. Therefore, Dr. Zimbalist's use of Jets data lowers the current NJ contingent for the Nets to 60.5%, down from the 67.9% of season ticket holders who reside in NJ.

3.3 The decrease from 67.9% to 60.5% has significant consequences for Dr. Zimbalist's calculations, primarily on the number of NJ-based Nets fans who would have to decide whether to make the trek and attend games in Brooklyn. While he derives the number 8,936 (14,765 X 60.5%), we calculate the number to be 10,025 (14,765 X 67.9%), where 14,765 is current average attendance per game. In other words, 1,089 more NJ-based fans per game would have to decide whether or not to head over to Brooklyn.

3.4 If, as we assume, there are more NJ-based fans who have to make the above decision, then this places a greater burden on NY-based fans in terms of fan attendance. In revenue terms, a greater share will be diverted from existing sales taxable expenditure in New York. Following Dr. Zimbalist's other assumptions, we find that 55.9% of spending at the Atlantic Yards arena would be new to the NY economy, compared to his figure of 59.4%.

3.5 In order to predict the future success that the arena hopes to have with attracting non-NBA activities (e.g., Disney on Ice or the World Wrestling Federation), Dr. Zimbalist mentions briefly in a footnote that his projections assume "the eventual closing of CAA [Continental Airlines Arena, the Nets' current home] and no new arena in Newark, no NHL and no minor league hockey events at the Atlantic Yards arena" (Zimbalist 2004:6, footnote 4). The problem with this scenario is that it allows no place for the New Jersey Devils to play ice hockey. His analysis also fails to account for inter-arena competition for non-sports events. Furthermore, the officials at the Meadowlands plan to keep its arena functional and add a giant super mall around it. Additionally, the *New York Post* has reported that the West Side Stadium plans to be convertible into a 45,000 person arena, and that the Jets' economic studies of the planned facility have included typical arena events as money earners (Topousis 2004). Everyone will admit that there is a limited market for these types of entertainment (in fact, Dr. Zimbalist admits this in the above-cited Topousis article), and the presence of another arena in the metropolitan area will only spell decreased profits for BAY in acquiring these contracts. Alan Sanderson, a sports economist at the University of Chicago, has recently stated with regard to New York's planned sports facility boom that "there's a saturation or over-saturation in this kind of market now" (Topousis 2004). Thus, sales taxes could be dramatically lower than predicted by Dr. Zimbalist.[4]

3.6 The discrepancy in the Nets fan base detailed in sections 3.2 to 3.4 would produce a tax revenue gap of roughly $3m PV. The impact of difficulty in scheduling non-NBA events (section 3.5) is tougher to estimate. A 25% shortfall in the number of non-NBA events from the desired schedule would yield a loss in tax revenue of at least $15m PV. We could conservatively take away $8m PV based on these two factors.

$805.9m - $8.0m = $797.9m

The Arena as Money Loser

3.7 More generally speaking, the open secret of the FCRC report is that the arena itself will not provide a net gain for the state or city coffers. Turn to Table 4 of his report and you will see that the total gain to the city is $257.5 million, whereas the report announces that the arena will cost the city and state $261 million. Our calculations above adjust the difference between revenue and cost further downward. Given the admission in his report, **it is time for our elected and non-elected officials to stop touting the arena as a net fiscal earner for the city and state**. Perhaps if FCRC read the report of their own consultant, they too would stop voicing the same absurdity.

3.8 One of the central contributions of Dr. Zimblist's past work to social scientific knowledge is that pro-sports facility consulting reports always carry a sin of omission: they fail to mention the many other things that the public money could be spent on that might bring a better return on public investment (counterfactuals). What is fantastically ironic about FCRC's report is that, unlike all previous consulting reports in favor of sports facilities, he actually informs us of one place where our taxpayer dollars would be better spent: in funding the 17 high-rise buildings. Unlike the money-losing arena, they represent an allegedly excellent source of money for the city and state, according to his assumptions.

3.9 Thus, if we follow the above logic, taxpayer dollars would be more responsibly spent by abandoning our planned expenditures on the arena and dedicating them exclusively to the building of the high-rises. And yet, if there is an undeniable housing crunch in New York City, why would we subsidize a massive real estate development that can turn an easy and hefty profit without our aid? Dr. Zimbalist himself admits that the housing shortage in NYC is such that any residences built by FCRC will be filled immediately (Zimbalist 2004:16), thereby proving itself a profitable market without government funds. Non-profits interested in affordable and low-income housing should

[4] It is also important to note that Dr. Zimbalist's analysis of new net tax dollars harvested assumes that nothing will replace CAA and manage to attract New Yorkers back into New Jersey. But the new mall at the Meadowlands, "Xanadu," may end up being a bigger attraction than any sports arena. New York City has a lot of sports events, but it doesn't have any mega-malls.

ask an additional question: **if we subsidize this proposal, then why does our government have no say in the criteria for who lives there?**[5]

4.0 REVENUE: HOUSING

Average Household Income

4.1 In order to calculate the NYS and NYC tax revenue of the housing component, Dr. Zimbalist projects that "the average annual income of households in the new community will be between $80,000 and $90,000" (Zimbalist 2004:17). For Brooklynites, this number appears to be off the charts, and one wonders what facts such a high projection can be grounded in (the next page of his report seems to imply that these facts come from a consulting firm hired by FCRC). According to State Comptroller Alan Hevesi's report *Brooklyn: Economic Development and the State of Its Economy* (Hevesi 2004), the median household income for all of Brooklyn is $35,000. The Prospect Heights neighborhood has a median household income of $28,000. Even the wealthiest Brooklyn neighborhood listed, Bay Ridge, comes in at $54,200. (Brooklyn Heights presumably comes in lower than Bay Ridge because it is paired with Fort Greene, producing a combined median income of $45,000). Obviously this is going to be quite a tony set of housing complexes, if its residents' average income will be triple the current median income of the people who currently live in the neighborhood.[6]

4.2 The $80,000 average household income becomes even more questionable when we look at FCRC's commitment to building low and middle income housing; 20% of the former and 30% of the latter have been promised (though no contract has been signed). This represents 900 and 1,350, respectively, of the proposed 4,500 units. Dr. Zimbalist also predicts, without any real explanation, that 60% of the new housing will be filled with people from out of state. This raises the possibility that New York will be subsidizing housing for residents of other states, 450 units at the very least, when it fails to provide adequate housing for all its current citizens. Continuing in this vein, footnote 19 of Dr. Zimbalist's paper reports that the average "middle income" of residents in the buildings will be $75,000; the upper limit of "middle income" is an astoundingly high $142,000.

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[5] Siimilarly, if we are subsidizing this project, we should at least demand that the jobs that FCRC brings in will be good jobs with good benefits. FCRC's history doesn't bode well in this regard, which shows that the vast majority of retail stores that it brings to Brooklyn have an anti-union stance.

[6] Using median incomes instead of averages is standard for the US Bureau of the Census, certainly a reliable generator of statistics. The problem with means is that they can generate skewed pictures of reality because of absurd outliers, such as the salary of Bill Gates. But assuming the absence of such outliers, medians and means should be relatively close to one another. Given the demographics of these Brooklyn neighborhoods, it can be safely assumed that the medians and means mentioned here are relatively close to one another, as indeed the Hevesi report confirms.

The 30% allotment for this income range is therefore anything but affordable (only 12% of American households earned over $100,000 in 2000, see Jacobs et. al., 2004).

4.3 Perhaps we should not be too surprised by this scenario, as housing advocates point out that the city government defines its criteria for low and middle income families by turning to the median income of the NYC metropolitan area, including wealthy suburban counties such as Westchester. This maneuver allows developers to receive $1 billion in public subsidies for building "affordable housing" even though "50% of the units will go to people making between $88,000 and $157,000 per year… Another 34% [is] available to households earning between $50,000 and $88,000 (Panesoff n.d.).

Income and Sales Tax Revenue

4.4 To test more reasonable income levels and their impact on sales and tax revenue, we have reproduced as much as possible Dr. Zimbalist's methodology. An adjustment was made to the proportion of income spent on sales taxable goods/services: while Dr. Zimbalist uses 33%, we have assigned 25% for the marginal income between $50-60k and $80k. This reflects the fact that households with higher incomes are more likely to save a greater proportion. The decrease on this percentage does not favor our results, since they lessen the resulting figures on the tax revenue gap.[7]

4.5 If we plug in a $60,000 average household income, there is a deficit of $204.3m to $247.0m from Zimbalist's estimate of $869.6m tax revenue from residents. A $50,000 average income would leave a gap of $306.5m to $370.4m. The low end of each of these ranges maintains the average effective NYS and NYC tax rates used by Dr. Zimbalist. The high end uses marginal income tax rates in the $50-60k income range, which are higher but more accurate considering the progressive structure of tax rates. We would have to guess at income distribution to produce better estimates. For the purpose of this paper, noting the 5% reduction in income tax revenue (see section 3.1) and the lack of explanation for the proportion of residents new to NYS and NYC (section 4.2), we can conservatively take away $300m PV.

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[7] Here we are not even questioning Dr. Zimbalist's contention that building 4500 units of subsidized housing actually adds precisely 4500 units of housing to the existing stock. The substantial literature on "crowding-out" does not support Dr. Zimbalist in this regard (e.g., Murray 1999; Sinai & Waldfogel 2002). In short, because of a variety of factors, evidence shows that building 4500 units of housing actually only contributes a percentage of that number to the total housing stock, Murray argues that "The empirical record from 1960 to 1987 indicates that moderate-income subsidized housing construction [just like the housing going in at BAY] is offset at least one-third by reductions in unsubsidized housing" (Murray 1999: 119). Needless to say, accounting for crowding out would cause Dr. Zimbalist's tax revenue estimates to decline further.

$797.9m - $300.0m = $497.9m

4.6 From such a drastically different result, we can draw one of the two following conclusions:

1) Dr. Zimbalist has overstated the future revenues to the city and state, because he has overestimated the incomes of the future residents of BAY.

OR

2) The residential element of the development will not deliver on the promised low and middle income units, at least not by Brooklyn standards.

Thus, in either case, the city and state are being sold a false bill of goods: either taxes will not be generated as promised or low and middle income housing will not be generated as promised.

5.0 REVENUE: COMMERCIAL BUILDINGS

Income and Sales Tax Revenue from Office Workers

5.1 As with residential income, Dr. Zimbalist uses a high average salary of $66,000 for BAY office workers. The average salary of people working in Brooklyn clocks in at $32,882 (Hevesi 2004: Appendix C), thus literally less than half of what Dr. Zimbalist projects. In fact, the average salary of the top 10 industries adding jobs to our borough was $29,367. Even if we were to give FCRC the benefit of the doubt and imagine that the office space will be filled exclusively with one of the highest paying private sectors in Brooklyn – “Financial Activities” – the average salary of workers would still be only $44,158, or nearly $22,000 below Dr. Zimbalist’s predicted average.

5.2 Substituting $44,158 for $66,000, we obtain a tax revenue gap of $68.3m to $84.0m from Dr. Zimbalist’s $214.0m. As in section 4.0, this range is produced by the use of average effective income tax rates at the low end and marginal rates at the high end. We also accounted for the propensity to save rather than spend additional income. Therefore, we assume that employees at $44,158 average salary would spend 45% of their income in the city and state compared to 40.6% used by Dr. Zimbalist for workers at $66,000 salary.

$497.9m - ($64.3m to $84.0m) = $413.9m to $433.6m

Office Vacancy Rates in Brooklyn

5.3 As we had mentioned in section 2.5, there is a methodological issue to predicting the number of jobs based on space. Dr. Zimbalist converts 1.9 million square feet into 7,600 jobs at 250 sq ft per office worker. While such a technique is standard in the field of urban planning and economics, a caveat remains in that the resulting figures are based purely on space. The conversion of space to jobs cannot be justified unless there exists a real demand for that space.

5.4 At a superficial level, the Class A office market in Brooklyn looks strong. Dr. Zimbalist justifies his total of 7,600 jobs on the basis that "as of early April 2004, the vacancy rate of Class A office space built in Brooklyn since 1985 was less than one percent" (Zimbalist 2004:17). Data for Q2 2003 from the Brooklyn Economic Development Corporation (BEDC 2003) agrees with this statement.

5.5 However, a careful look at the statistics makes for a very different market. The BEDC document shows that there are 10 Class A office buildings in downtown Brooklyn, which means that FCRC's MetroTech development factors in heavily, perhaps accounting for all the Class A space. Anyone aware of FCRC's history with MetroTech and current situation knows that the development has been heavily reliant on subsidies and government tenants to fill the space.

5.6 According to Rothstein (1992), MetroTech cost the city "$325 million in subsidies, including site improvements; a 13 year exemption from real estate taxes on new buildings; a 12 year elimination of the commercial rent tax, and a 12 year corporate tax credit of $500 a year for every employee moved to Brooklyn." In addition, there have been tax incentives for individual MetroTech tenants:

Chase Manhattan Bank signed an agreement in 1988, obtaining $234m in incentives to move to MetroTech and keep 5000 jobs there. The company has since slashed jobs throughout the city (Center for an Urban Future 2001).

Bear Stearns recently signed a $4.8m deal to keep 1,500 jobs in MetroTech, though this money represents unused sales tax breaks from a 1997 agreement, now converted to property tax exemptions. The $4.8m is essentially a small part of a bigger incentive package from 1991 and 1997. The 1991 agreement was a $36-million package, which included Bear Stearns' commitment to move into MetroTech and to maintain at least 3,100 employees in the city (Lyne 2003).

5.7 Thrush and Rayman (2004) also report that "government agencies often move into [FCRC's] office buildings. The City of New York, in fact, is the company's largest office tenant, at nearly 816,190 square feet, financial filings from last July show. Much of that space is in MetroTech Center in Brookyn. The federal government occupies the third slot, with 580,000 square feet in MetroTech and Pierrepont Plaza, the filing shows."

5.8 Based on the information from sections 5.6 and 5.7, we can calculate just how much of the demand that produces a 1% vacancy rate is artificial. The aforementioned BEDC data shows that Brooklyn's Class A office supply as of Q2 2003 was 5.5 million sq ft in 10 buildings. First, we can take out government tenants since they are not really new jobs: 816,190 + 580,000 = 1,396,190 sq ft. Let's assume 2/3 of this space is based in

FCRC's Class A space in Brooklyn, which yields 930,784 sq ft. Then we have the 1,500 Bear Stearns jobs and the 5,000 Chase jobs that were brought to MetroTech via incentives. At 250 sq ft per worker, this is 1,625,000 sq ft. Just from analysis that barely scratches the surface, we have accounted for 55% of Class A office space in Brooklyn that was filled by the public sector or with the help of incentives to private companies. This calculation does not even account for the variety of rent abatement programs for MetroTech.

5.9 A thriving commercial rental market would not require corporate handouts or government to occupy the space. To put it more strongly, downtown Brooklyn has yet to prove itself as a market for Class A office space. **The vacancy rate used by Dr. Zimbalist to generate 7,600 jobs is an artificial rate, inflated by government expenditures and nothing to do with what economists would call a "market."** Therefore, the 1% rate cannot be reasonably extended to BAY unless we presume an equivalent amount of public sector expenditure. Something has to give in Dr. Zimbalist's calculations. Either he must take into account this additional public expenditure or FCRC will not be able to fill its office space. In the latter scenario, one must recall that the square feet per job formula falls apart, at which point the amount of incremental tax revenue that the city and state receive as a result of the new office space drops as well.

5.10 If the core of downtown Brooklyn is not a sure market, risks are even higher at the edges, including the BAY site. Across from this site on Atlantic Avenue exists a high end Class B office property known as 470 Vanderbilt, owned by the Carlyle Group. Despite its $60 million renovation completed in 2000, this property has a vacancy rate of 43% listed on the company's website. When we contacted the company, they admitted that it was actually 70%. What is astounding about this vacancy rate is that the company's website informs prospective lessees of a host of tax subsidies that they will receive per worker if they move into the complex. The man we spoke with also explained that their spaces are designed for big companies with high-technology needs, so one assumes that it must be close to Class A space in terms of quality. And yet they still cannot fill the property, and have failed to fill it for four years. Considering that the owner of this property is famously wealthy and powerful, it stretches credulity to think that if they cannot find prospective tenants given their subsidies and connections, that FCRC will be able to beat them in this game by adding even more office space in the area. (For data on the building, including vacancy rates and available subsidies, please see: www.470vanderbilt.com).

5.11 We note also that by combining data from FCRC's own outdated website with press sources (Kolben 2004a), we find that the Atlantic Center Mall (another FCRC property) has a 16% vacancy rate in spite of subsidies **(if one removes the Department of Motor Vehicles from this calculation, the vacancy rate at this "retail mall" goes up to 27%)**.[8] **Furthermore, we have found that the price per square foot that taxpayers are paying to FCRC for our Department of Motor Vehicles is disproportionately high considering the glut of space in the mall and this state agency's obvious lack of**

[8] The site is outdated because it has not changed its tenant list in quite awhile, including listing Macy's as one of its anchor tenants, even though it moved out over a year ago (Topousis 2003).

interest in paying rates for retail instead of commercial space. The Manhattan Institute's Julia Vitullo-Martin states that the DMV pays FCRC $39 per square foot even though the average rental rate for Class B space in Brooklyn is $24.45 (Vitullo-Martin 2004; Brooklyn Economic Development Corporation 2003).

5.12 As detailed in sections 5.10 and 5.11, we have two commercial properties right across the street from FCRC's project that cannot find tenants. The average vacancy rate for Class B office space in Brooklyn is 17.9% (BEDC 2003), which suggests that the problem with the market at Atlantic Yards does not lie in the subtleties distinguishing Class A from Class B space, but rather with the age-old adage, "Location, Location, Location." The standard formula of square feet per job currently does not factor at 470 Vanderbilt or Atlantic Center Mall, despite the subsidies. And even if the space were filled, a significant portion of the revenue from income taxes and consumer spending must first offset the subsidies the public grants them. These buildings stand as a blatant example of the fact that **we are *already* not receiving our money's worth with commercial subsidization in the Atlantic Yards neighborhood.** Why should we expect it to be any different for FCRC's next venture?

5.13 The above discussion impacts Dr. Zimbalist's revenue forecasts in one of two ways. We must either incorporate a much higher vacancy rate into the analysis or somehow determine how much subsidy and government tenancy will be required to fill office space at BAY. On the latter point, FCRC has relied on its connections to fill its buildings with city, state and federal agencies: the upcoming Courts building at 330 Jay Street, the DMV, the Empire State Development Corporation, the Fire Department are just some examples. Considering the difficulty of predicting the corporate welfare game, we will assume higher vacancies for our analysis. Based on the exhaustive figures quoted above, we have tested 15% and 25% vacancy rates; these percentages may seem high, but remember that we have chosen to ignore the likely prospect of tenant subsidies and government tenants. These rates therefore represent an estimation of natural market vacancy rates based on what we have observed in downtown Brooklyn and the Atlantic Yards area. This lessens Dr. Zimbalist's new commercial income and sales tax revenue by $26.8 to $44.7 million PV.

($413.9m to $433.6m) - ($26.8m to $44.7m) = $369.2m to $406.8m

Income and Sales Tax Revenue from Retail Workers

5.14 Perhaps to be on the cautious side, Dr. Zimbalist does not calculate revenues generated from the 1,250 retail workers, probably because this is not a huge factor. The average salary in the Retail Trade sector in Brooklyn is $23,069. The low average salary makes it less likely that workers will move in to New York City and State to take these jobs.

5.15 Reflecting the somewhat higher salary and employee numbers compared to the arena service staff, we calculated a sum of $6.6 million of new tax revenue in present value for retail workers. This calculation used the following factors:

3.2% average effective NYS income tax rate.

2.1% average effective NYC income tax rate.

2% annual growth in income, which is generous considering the sector.

30% of workers being new residents to NYS and 20% new to NYC, generous considering the low pay.

50% of jobs are new to the state and city.

5.5% discount rate.

5% off on income tax revenues to reflect exemptions and credits.

5% average vacancy rate (generous considering the failure of Atlantic Mall).

The rate of build-out for the retail component was set to Dr. Zimbalist's build-out rate for office development.

($369.2m to $406.8m) + $6.6m = $375.8m to $413.4m

6.0 COSTS: SUBSIDIES

Debt Servicing, Infrastructure, Utilities and Relocation

6.1 Discussed to some extent in sections 5.6 to 5.13, city and state subsidies possibly represent the single most important factor that we need to know about the BAY proposal. Without an accurate and objective assessment of this figure, we cannot determine how beneficial the project will be, net, to the city and state. On page 31 of his report, Dr. Zimbalist informs us that the city and state will each provide $9m per year [$18 million total] in payment toward the loan for the 30-year length of the loan. After several requests, Dr. Zimbalist still refuses to tell us how this number is derived and we have been unable to find it anywhere after extensive reviews of all published materials on the development. How are we, as citizens, to judge the alleged benefits or pitfalls of this project to the city and state's finances if we have no idea where this central number emerged from? Scarily enough, the only public announcement that we have found of the costs states that it will be about $10 million more per year than the FCRC report acknowledges (Bagli 2004). One might further ask how the city and state are simultaneously announcing that they cannot provide figures because everything is "too preliminary" while also implying that the project is a "done deal."

6.2 Be that as it may, working with Dr. Zimbalist's published numbers (reliably vetted by Mr. Ratner, see DeMause 2004d) an additional $187.73m in public funds covers the costs of upgrading infrastructure and utilities as well as "relocation" costs – the costs that we as taxpayers pay in order to move people whose property has been seized by the state in order to make way for the development schemes of a private company. The $187.73m includes $25m as contingency. While Dr. Zimbalist sees this figure as cautious, one of his colleagues has stated that "it is not unusual for large construction projects to have hidden costs that rival the explicit cost of the project." (Baade 2003:28).

In fact, FCRC's history with the MetroTech complex is instructive in this regard. Announced to the public in 1984 as a $340 million dollar project (Rangel 1984), by 1987 this figure had jumped up to $770 million (McKinley 1987). In 1989 we were being told that it was a $1 billion dollar project (Morgan 1989). **Thus, in 5 short years, MetroTech's project costs tripled.**

6.3 We also know that $150m of this money will be required to platform over or move the rail yards (DeMause 2004b). This implies that only a small fraction of $187.73m will be used for other infrastructure (upgrading subway stations), utilities, relocation costs and public use rights. In order to provide a benchmark for just how much of an underestimate Dr. Zimbalist may be making, we note that the renovations alone of the Atlantic Avenue and Stillwell Avenue subway stops cost $400m (Son 2003:3).

6.4 Dr. Zimbalist's estimates seem substantially off the mark when considering that just $37.73m is dedicated to covering the various costs not related to platforming or moving the rail yards. As we are not expert in determining infrastructure costs, we will use a contingency matching Dr. Zimbalist's original estimated cost to analyze the impact of his low estimates and the potential for greater cost overruns: $187.73m - $25m = $162.73m (original cost) - $25m (contingency already factored in) = $137.73m.

($375.8m to $413.4m) - $137.7m = $238.1m to $275.7m

Sports Facilities

6.5 Another factor left up in the air is the cost of renovations over the life of a sports facility. In his writings, Dr. Zimbalist has stated that sports facilities consultants neglect to factor in the funding for expensive renovations that can be demanded from local government. Chicago's Soldiers' Field, for example, just spent $500 million renovating the stadium at public cost (Sanderson 2004). However, Dr. Zimbalist's paper seems to imply that renovation costs will be covered by FCRC, since this is not mentioned. Therefore, we will leave this out of our calculations but want to note the overwhelmning precedence of public funding for renovations.

6.6 The proposed Nets arena must also be viewed in context of other sports facility proposals around the city. In an effort to establish the extent of city and state subsidies that will be going to a small number of millionaires in the short years to come, we would like to quote an authority on sports facility financing, John Genzale, who wrote in the Sports Business Journal (for the record, his numbers for the price of the Brooklyn arena have since become outdated; it has now increased to $630 million, cf. DeMause 2004a):

> "Let's complicate this a little, and you'll need your calculator for this: The Nets are going to build in Brooklyn ($435 million), the Devils have rekindled plans for a downtown Newark arena ($300 million), the Mets and Yankees want new ballparks ($800

> million each) and Cablevision wants to move Madison Square Garden ($600 million). Leaving out the $3.17 billion for the convention center improvements, that's $4.435 billion for sports facilities and if you take out the Newark proposal it's $4.135 billion in the city proper. It's only coincidental that New York school officials say it would take $4 billion to fix the city's public schools." (Genzale 2004)

6.7 As evidenced by the $600m of public funding requested for the West Side stadium, city and state taxpayers will be paying dearly when all these sports facilities are built. **Abundant independent evidence shows that our subsidies amount to a rampant form of corporate welfare. In fact, so offensive is this form of corporate welfare to Dr. Zimbalist that in his seminal 1997 book *Sports, Jobs and Taxes*, he refers to a now measly-looking $300m subsidy granted to the owner of the Seattle Seahawks as "a farce" (Noll & Zimbalist 1997: 507).** It is nothing short of mysterious, then, to note in comparison that Dr. Zimbalist explains in his report to the New York public that the city and state will be granting FCRC $449.34m to construct a project that includes an expensive arena which should be privately cross-financed by the high-rise commercial and residential developments.

Price of the Rail Yards

6.8 In addition to the direct subsidies discussed in sections 6.1 and 6.2, there is a major hidden subsidy with regard to land. The FCRC report finally provides answers to a topic that we have been waiting to hear more about: the precise price of the rail yards. According to Dr. Zimbalist's figures, FCRC will be paying only $114.8 million PV for rent on the rail yards over the course of 30 years, based on a "fair value" of $1.70 per square foot. But how can fair value be achieved under a no-bid process? An open bidding process seems so basic and American that it feels odd that we have to request such a process. Markets are the most efficient manner in which to accumulate knowledge about land prices. We note here that the Straphangers Campaign has already sent an advisory letter to the MTA to let the authority know that citizens expect a fair deal.

6.9 For the analytical purposes of this paper, we must test the ground rent assumed by Dr. Zimbalist, a difficult proposition considering the nature of land prices and rents. Ground rents vary greatly depending on land use and zoning and, to a lesser extent, on location. For instance, Silverstein Companies pays an annual ground rent of $120m for the World Trade Center site. This translates to approximately $171 per sq ft. On the flip side, ground rents for residential areas in a pricey neighborhood like Greenwich Village can be as little as $0.50 per sq ft. The challenge is to come up with a reasonable range for ground rent for a mixed-use project in Brooklyn. We do have one current project that can provide some basis for comparison: Brooklyn Bridge Park. According to the Brooklyn Bridge Park Development Corporation, the project will generate $7m in annual ground rent for a 70-acre site, yielding $2.30 per sq ft. This figure is somewhat higher than Dr. Zimbalist's figure, even though the commercial component for Brooklyn Bridge Park is much smaller.

The Park will generate 1,000 jobs over its 70 acres (14 jobs per acre) compared to BAY's 9,600 jobs over 21 acres (457 jobs per acre). Our earlier Manhattan examples show the overwhelming importance of land use and zoning, and BAY's characteristics should support a ground rent much higher than Brooklyn Bridge Park.

6.10 Considering the above arguments, a $1.70 per sq ft ground rent would represent a significant discount for FCRC. To calculate the cost of this hidden subsidy, we have used a range of $3-8 per sq ft, yielding 30-year PV's of $202.6m to $540.2m. This represents a discount for FCRC of $87.8m to $425.4m.

($238.1m to $275.7m) - ($87.8m to $425.4m) = -$187.3m to $187.9m

6.11 The environmental quality of the rail yards may not be high and significant investment may be required to improve the land. However, since FCRC seeks to build 17 high-rises, the scale of development should balance out land improvement costs. As with the housing element, FCRC and Dr. Zimbalist are trying to have it both ways. Under a fair planning/zoning regime, a developer might be 1) allowed to build high to make up for land costs or 2) offered land cheaply to make smaller scale development possible. FCRC, under a no-bid contract, will pay low rents and construct a project of a massive scale.

Privatization of Streets

6.12 FCRC's BAY project aims to "de-map" several city streets by combining them into superblocks and building high-rises and an arena on top of this valuable and much utilized public space. FCRC's report makes no mention at all of the revenue that would accrue to the city as a result of the sale of these public streets. We raise this point because it is already known that FCRC owns Fort Greene Place between Atlantic Avenue and Hanson Place (Kolben 2004a). While his report accounts for the rent of the rail yards, Dr. Zimbalist fails to tell us whether FCRC will be spending any money to purchase or rent our precious streets.

6.13 An economist might struggle to ascertain the value of a city street. Presumably merchants and residents provide taxes from that street, and other merchants gain by customers ability to use a street to get to their establishment. Kids play on them. Cars drive and park on them. On the other hand, there are costs associated with the upkeep of streets. Let us therefore assume that, at a minimum, the streets are worth the same ground rent as the rail yards when consolidated into the BAY site.

6.14 As property lot boundaries cover much of the sidewalk, we have measured the total square footage of the public portion (automobile lanes) of the three de-mapped streets at 62,938 sq ft. Our conservative estimate assumes that Dr. Zimbalist has taken this issue into account, while our high-end estimate uses the $8 per sq ft figure from section 6.8. If we assume this rent to be constant with the discount rate over the period of 30 years, the uncollected rent would be $15.1m PV.

(-\$187.3m to \$187.9m) - (\$0.0m to \$15.1m) = -\$202.4m to \$187.9m

The City Subsidizing the State

6.15 On a fiscal basis, the arena by itself is a money loser, with a 30-year income and sales tax revenue of \$257.5m PV versus a cost of \$261.3m PV in city and state payments toward the arena bonds. Furthermore, the division of revenues and costs results in a cross-subsidy from the city to the state, adding to New York City's tax burden toward the state coffers. Relative tax rates applied to benefits gives 44% for the city and 56% for the state. The city gets \$113.3m (0.44 x \$257.5m) for its \$130.5m cost, while the state gets \$144.2m for its \$130.5m. Therefore, the city loses \$17.2m on the arena compared to the state's gain of \$13.7m, even though they have invested the same amount of money. **This effectively represents a cross-subsidy of \$15.45m from the city to the state**. In light of this fact, it is worth pausing for some additional data.

6.16 We contacted the Center for Governmental Research in Rochester, in order to ascertain whether New York City provides a net contribution to New York State. Indeed, the numbers are a bit staggering. CGR's latest report tells us that "in aggregate, the NYC metropolitan area contributes substantially more revenue to the rest of the state than it receives back in state expenditure (Center for Governmental Research 1999: v)…. NYC itself contributed about \$700 million if the PIT [Personal Income Tax] is allocated according to place of residence. NYC's fiscal deficit increases to about \$2.6 billion if the PIT is allocated according to place of work [i.e., including the suburbs] (Center for Governmental Research 1999: 13)." A chart in the back of this report tallies that the per capita state expenditure on New York City residents is \$330, while the state average is \$610. The \$330 figure is the lowest in the state.

6.17 Considering that thousands of Brooklynites have voiced their disapproval of the BAY project, it becomes additionally questionable when placed in this light. As far as we can tell, Mayor Bloomberg continually explains to his constituents that the city is having substantial budgetary problems. **Why, then, are we in fact creating a new project that will send new money to the state coffers and away from city coffers when we already subsidize the state and when our very own Borough President is proclaiming that our students are "being shortchanged"? (see quote below, section 7.7)**

7.0 COSTS: PUBLIC SERVICES

General Considerations and Method

7.1 To create a foundation for the analysis of public service costs, we have considered only the expense budgets of the following mainstream public services provided by the city:

Public Schools
NYPD
FDNY
Sanitation
Public Libraries
Parks & Recreation

The expenditure figures have been obtained from the Mayor's preliminary budget plan for 2004 (as of January 2003) as reported in the NYC Independent Budget Office's "Analysis of the Mayor's Preliminary Budget for 2004" (NYC IBO 2003a).

7.2 The reader might notice that the above list excludes a range of public service costs:

Capital Budgets - We have excluded these costs since they can vary greatly over time, though we must note that the development would factor into those future capital budgets as well. Services that are heavily based on capital budgets (e.g., transportation) have also been excluded for this section of analysis.

NYS-provided services

Non-mainstream services - Since the development proposal aims to attract an upper-middle and middle class market, it is not methodologically vital to include lower-expense services such as Youth & Community Development or Aging.
In light of these exclusions, we believe our estimates again err on the side of conservatism.

7.3 As Dr. Zimbalist did for the FCRC study, we have calculated new public service costs on a per capita basis. For instance, if the city on average spends $500 per resident on a particular service, we would predict that each new resident adds $500 to the budget for that service. We admit that this excludes economies of scale and that services might be provided more cheaply as population grows. However, considering the exclusions in section 7.2 and other factors that will be discussed throughout section 7.0, we believe that we are maintaining an overall conservative approach.

7.4 To determine the number of new residents and school pupils, we have used Manhattan 2000 Census data on household size and the number of school-age children. Using Brooklyn or NYC data would have favored our results due to a larger average household size, increasing public expenditure levels, but this would be an inaccurate reflection of the high-rise development. In short, when we claim Manhattan-ization and inappropriate scale of development on one hand, we will not use Brooklyn-based assumptions on the other. Our Manhattan-based assumptions generate 9,450 residents (4,500 units X 2.1 average household size) and 931 public school students K-12.

7.5 Dr. Zimbalist calculates service costs on a per capita basis of residents only. However, in comparison to NYC totals, the office component of the BAY project is more significant than the residential. Consider that the city has roughly 8 million residents and

3.5 million jobs. The number of jobs (9,600), or rather workspaces, marks a higher proportion than the number of residents (9,450). In other words, the new commercial space also represents a source of significant new demand for certain public services. Therefore, while schools, sanitation, parks and libraries have been calculated purely on the basis of residents, costs for FDNY and NYPD have been weighted 3/4 residential and 1/4 worker (based roughly on a 40hr work week out of the 168hrs in a week).

Schools

7.6 Dr. Zimbalist informs us that "the educational district for Atlantic Yards is presently at 60% of physical capacity and the five-year projections do not call for this to change" (Zimbalist 2004: footnote 34, page 32). We question his sources because 1) there is no single Atlantic Yards district but rather the site covers two districts, and 2) his statistics are simply untrue. According to address searches on the NYC Department of Education's Zone Search, the BAY site comprises Community Districts 13 and 17. A report by the NYC Independent Budget Office (NYC IBO 2003b) shows that District 13 and 17 elementary and middle schools are well under capacity in terms of number of pupils. Districts 13 and 17 are running at 71.5% (enrollment of 13,760 compared to capacity for 19,234) and 85.3% (24,788 of 29,062) of capacity respectively. Both these figures are significantly higher than 60%. As for high schools, where students have choice beyond their districts, the report notes severe overcrowding to be a citywide problem. Therefore, incremental costs for new high school students are certainly not minor, as they add to an existing problem. Even new elementary and middle school students would require new resources such as more teachers, textbooks and equipment.

7.7 We should also keep in mind that Brooklyn as a whole needs significant investment in its schools. According to the *Community District Needs* report for Brooklyn, FY 2004, "There is a great need to eliminate overcrowded and deteriorated classrooms" in Community District 2, which borders on BAY. Recall that Mayor Bloomberg has not only promised a spate of new school construction in order to cope with overcrowding but also to personally fix the bathrooms in the schools that are so filthy that many children refuse to use them (Williams 2004:7). At a more local level, Borough President Markowitz has provided documentation directly to School Chancellor Joel Klein that shows Brooklyn's problems with "extreme overcrowding." **He goes on to state that "Brooklyn deserves its fair share, and our analysis indicates that thousands and thousands of our students are being shortchanged" (Markowitz 2003). These comments by our highest public officials indicate that we should perhaps spend our money on a troubled school system rather than a basketball arena.**

7.8 The NYC Department of Education currently spends $11,881 per student in its operating budget (NYC IBOa). Assuming that the number of new students keeps track with the number of units constructed, the 30-year PV cost would be $295.3m.

(-$202.4m to $187.9m) - $295.3m = -$497.7m to -$107.4m

Police and Fire

7.9 In his report, Dr. Zimbalist assures us that, “FCRC concludes that the increment in fire and police budgets would be negligible” for the FCRC BAY project. First we note that this is a highly questionable source for this data, given the vested interest of FCRC. Further, given the proposed increase in housing and commercial space, it is unimaginable that there would be little need for additional fire and police, especially when the recent *Community Needs Book* (Community District Needs 2004) reports that CBs 2 and 8 have both complained of a need for increased police presence.[9]

To back up our point, we cite our own Senator Charles Schumer, who has recently argued that there is not enough protection from terrorist attack for America’s shopping malls (Gaskell 2004); as we have elucidated, the BAY project hopes to bring in just such a target. We add too that there is already a well-known precedent for terrorist attacks in the neighborhood, where in 1997 several men were apprehended as they plotted to bomb the busy Atlantic Avenue subway station (the very transit hub that is so central to BAY’s success) (Barry 2004).

7.10 Another factor to consider is the need for the police presence generated by the new arena. To find out more about the impact of the arena, we phoned the NYPD to see how games at Yankee stadium affect police deployment. According to Kevin Czartoryski, a Detective assigned to the Deputy Commissioner for Public Information of the NYPD, Yankee Stadium has its own police detail which is assigned to the stadium when a game is taking place. In other words, as he put it, "Yes, police presence is increased when there is a game." Granting FCRC that Yankee Stadium is substantially larger than the planned arena of 19,000, we still can be assured that there will be added police protection, especially in our post-9/11 world, whenever so many people are gathering in one place in a residential neighborhood in New York City. Quite bluntly then, if there is not a plan for increased police presence due to the BAY project, then we suggest you complain to your government about things other than the BAY proposal. Also keep in mind that Mr. Ratner himself announced a desire to fill the arena on more than 250 nights per year (Daily News 2004). We can therefore assume a substantial increase in cost to our police force as a result of the BAY plan.

Calculation of Costs for Mainstream Services (except Schools)

7.11 In light of the additional security costs based on the arena and the fact that NYPD

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[9] Given the current heavy gridlock at the corner of Dean and 6th Avenue, it seems highly likely that with the addition of 17 high-rises and a 19,000 seat arena, the Dean Street Fire House on this corner (Engine 219 & Ladder 105) will lose its ability to respond to emergencies in a dependable and safe manner. As a result, the firehouse may need to move in order to remain effective, thereby adding additional costs on city taxpayers; alternatively, increased response times if they stay in this station will cost taxpayers in other, more dramatic, ways which can also be calculated in monetary terms.

and FDNY costs account for approximately 80% of the listed mainstream service costs (other than schools), we feel that we are not taking an aggressive approach in using per-capita calculations. As with schools, these expenditures are tracked to the rate of build-out proposed. The 30-year PV operational cost for these services would be $250.4m. This is slightly higher than the $241.9m Dr. Zimbalist derived for all services, including schools. As we still have not yet factored in the latter figure, we will take only $8.5m ($250.4m - $241.9m) from the current tally.

(-$497.7m to -$107.4m) - $8.5m = -$506.2m to -$115.9m

7.12 This concludes our attempt to quantify the impacts of the BAY project. We note that forecasting economic and fiscal data is not an exact science, but we believe **we have taken a conservative approach throughout this analysis, even for our high-end estimates.** In one section, we have even done FCRC's work for them, calculating tax revenues from the projected retail workers. Therefore, the disparity in results between our study and FCRC's should raise some flags and at least put the brakes on BAY until a thorough review process is conducted. While Dr. Zimbalist touts a net positive fiscal impact of $812.7m, **we find it very likely that the city and state will suffer a net loss of hundreds of millions of dollars if it invests in this project.**

8.0 OTHER ECONOMIC ISSUES

Revenues Not Quantified

8.1 To support his arguments, Dr. Zimbalist lists a range of revenue sources that are difficult to quantify. Some of these could be quite significant, such as the property taxes collected on residential buildings. However, at least a couple of revenue sources are questionable.

8.2 Dr. Zimbalist mentions the "increased property taxes from the increase in property values in the surrounding neighborhood." Considering the scale of the development, the construction work that will take place over a decade, the development's impact on increasing traffic and transit delays, and the widespread local opposition to BAY, the claim of higher property values seems somewhat dubious.

More significantly, it's a somewhat humorous claim, for in order to make it, Dr. Zimbalist cites a study that argues that property values within 1/4 of a mile of arenas go up substantially. And yet, this wouldn't mean much to the revenues of New York City in the case of BAY, for the vast majority of property within 1/4 mile of the arena is owned by FCRC (in fact, the MTA has used this precise point as justification for giving the company a no-bid contract to the rail yards), and these properties have real estate tax abatements for decades to come.

8.3 Dr. Zimbalist mentions revenue from the real estate transfer tax and mansion tax as revenue sources. We find it unbelievable that this revenue should count toward the fiscal benefit, when the taxes will be generated under the threat of eminent domain.

Costs Not Quantified: Transportation

8.4 While Dr. Zimbalist lists non-quantified revenues to show off his conservatism, he has not taken into account major costs in terms of transportation and health.

8.5 Community Consulting Services's Brian Ketcham, an expert who studies the externality costs that accrue to a community as a result of development, directs us to some straightforward statistics on the new traffic that will be brought into the neighborhood as a result of the BAY project. He reports that a total of 57,425 new riders per day will be on the subway, straining the system locally beyond current capacity. Similarly, he forecasts that 23,000 more automobile vehicle trips per 24 hour period will be caused by the BAY development (Community Consulting 2004a). Ketcham calculates that making sure that Brooklyn's traffic can handle the BAY project would cost around 4 billion dollars over the course of about 8 years (Community Consulting 2004b).

8.6 Commenting on the future of Brooklyn traffic, Ketcham is quoted in a *New York Post* article (Kuntzman 2004: 25): **"We already have gridlock, but the cumulative result of all these projects will be double- and triple-gridlock."** More importantly for our purposes here, this sort of traffic carries a calculable price. Though he has not undertaken a comprehensive study of the amount of money that will be lost to Brooklynites from BAY in terms of lost hours of productivity due to traffic, increased health costs and increased accidents, he estimated during a phone interview that this price tag could easily reach $50 million per year. When told that Dr. Zimbalist hadn't included any such costs in his report, Mr. Ketcham responded that "my objective is to get some honest numbers on the table. These figures are part of the puzzle and they can't be ignored."

8.7 Again, turning to local experts, we learn from the *Community Needs Book* that:

> "…traffic congestion is a critical issue for Community District Two. If our local and arterial roads remain in their same condition and alignment, the district faces ever-increasing congestion and gridlock. With this congestion has come a corresponding decline in the health of the populations living in close proximity to the Downtown area and I-278 corridor, degradation of the already compromised environment, infrastructure damage, including damage to the foundations of many of the historic buildings and homes in the district. **Ultimately, the congestion will be a serious disincentive to future economic growth and stable residential communities.** The negative impacts of this congestion stretches throughout

> the entire district as traffic spills over and detours into our residential streets as well as on our commercial routes." (Emphasis ours)

To back up these claims, we cite Dr. Baade, a colleague of Dr. Zimbalist's, in order to illuminate additional hidden costs that are not being mentioned in the public discussion of this project, and are not found in the FCRC report. When analyzing the impact of Los Angeles' Staples Center, Dr. Baade explains that:

> "In identifying unexpected costs associated with the Staples Center, it is important to note that conventional wisdom might define a positive relationship between taxable sales and the construction phase of an arena or stadium. Evidence for other cities often suggests the opposite. Any large construction project causes substantial dislocation and physical stress. Traffic patterns are altered and delays increase. In addition, the money spent on the arena venture diverts financial resources from other projects that may have smaller implicit costs." (Baade 2003:27)

Considering the scale of the BAY project, scheduled to have ongoing construction along Atlantic Avenue for approximately 10 years (see Zimbalist 2004: 18), we must ask ourselves how much money will be lost in extended commuting hours, increased accidents, and in declining real estate values as people flee the dust, diesel, traffic and noise.

8.8 As part of an environmental or zoning review process, we urge a full-scale transportation impact study, one that would take into consideration FCRC's recent statement that people will prefer to use cars to get to its new Atlantic Terminal Mall (see Kolben 2004b and section 8.15 below). For the purposes of this study, we can say with confidence that transportation-related costs alone counter-balance all the revenues quoted but not quantified by Dr. Zimbalist. Therefore, our final quantified results in sections 7.11 and 7.12 still stand as a relatively conservative projection.

Costs Not Quantified: Health

8.9 In addition to health costs related to transportation, we note that there is extensive social scientific literature on the health impacts of so-called "urban renewal."[10] Anecdotal evidence is well-known, but specialists such as Drs. Mindy Fullilove and Roderick Wallace (both affiliated with Columbia University) have contributed important empirical studies to this field. We are not qualified to undertake such a study, but we can say that the

[10] For more data on how FCRC's BAY project falls within an "urban renewal" area, please see NYC HPD 2003. Unbeknownst to many residents, the NYC government is currently in the process of extending the powers of this plan over city residents into the year 2044, well beyond its original 2008 end-date.

scholarly consensus is that urban "renewal" plans that cause displacement have serious impacts on life expectancy as one goes down the socioeconomic ladder, with some studies of the Bronx showing a shocking 10% increase in excess mortalities among the most vulnerable populations (Wallace & Wallace 1998; see also Fullilove 2004). The BAY project will displace and bring stress to hundreds of existing business and residents. These predictable costs have not been mentioned anywhere in the FCRC report.

Nets Debt

8.10 FCRC will already be quite overextended in his purchase of the team when it is coupled to his ambitious building project. *Hoopsworld* recently reported (Maymin 2004) on Mr. Ratner's financing for acquiring the Nets:

> "The fact that the financing is coming together is not necessarily great news, because it means that the Nets will be in debt even before the gargantuan task of building their new arena is set in motion. It is like buying real estate with a huge mortgage and then tearing down the existing structure to erect a hospital or gym. It puts the buyer in a precarious position in case the team does not generate enough cash flow to pay the interest. The Nets have historically lost money the past few years as several big investments have gone sour, including centers Dikembe Mutombo, now on the Knicks, and Alonzo Mourning, now retired for medical reasons."

8.11 Combine this fact with the widely acknowledged ruse by sports team owners to cry poverty (Sanderson 2004), and you have a sense that New York taxpayers will be holding a much larger bill than Mr. Ratner is currently letting on. Mr. James Stuckey, an FCRC vice-president, briefly acknowledged this possibility in his exchange with Councilwoman Christine Quinn during his May 4 City Hall testimony (NYC City Council 2004). In order to bring in the promised revenues, FCRC will have to spend enough money on the Nets so that it will be competitive enough to draw fans away from the well-established Knicks and to attract current Nets fans from New Jersey. Following *Daily News* sports columnist Mike Lupica's argument (Lupica 2004) that the acquisition of the Nets has nothing to do with a love of basketball and everything to do with acquiring real estate in non-traditional manners, one can question whether Mr. Ratner has any intention of making the necessary investment on his team.

8.12 Given what we know of Mr. Ratner's record, other scenarios seem much more plausible, the first of which has even already been voiced in the sports press. He could:

1) Not have enough money to spend on the team because he cares more about real estate (Kerber 2004, Krieger 2004, Parks 2004, & Youngmisuk 2004 all report that Ratner has already instituted substantial cost-cutting measures on the Nets that will impact the ability of the team to be competitive; this in turn will reduce fan attendance and thus returns to

taxpayers; one reporter openly suggests that his cost-cutting measures directly result from the fact that his true interest lies with real estate).

2) Cry poverty.[11]

In both of these cases, taxpayers may wake up to find that their contributions to this multi-millionaire owner will be increased even further.

Tunnel and Spillover Effect

8.13 Press reports have announced that there is a planned tunnel that will connect public transport riders with the arena complex. If this is the case, then any so-called "spillover" effect into the neighborhood due to local spending by visiting fans will be reduced. Most of their money will be spent in the arena itself rather than in our Brooklyn neighborhoods. As Dr. Zimbalist mentions in the FCRC report, spending within the arena causes a much higher percentage of overall expenditure to "leak" out of New York State than does spending in our beloved mom & pop stores and restaurants.

Transport Hub Claim

8.14 FCRC has been out in the press announcing that the arena "only makes sense" at the corner of Atlantic and Flatbush because it is such an extraordinary transport hub. First, we note that many cities have their arenas located intentionally away from their transport hubs. In fact, our city is just such a city, with Yankee stadium at the confluence of only two subway lines and Shea Stadium only on one line. We here cite the following story and headline in order to point out the ludicrous nature of this continual claim:

> "Cyclones Sell 80 Percent of Ballpark Capacity More Than Two Months Prior to Season Opener : CONEY ISLAND — They lined up in droves at the crack of dawn, waited patiently for the first ticket window to open, then threw down their hard-earned dollars in anticipation of a great summer at the ballpark" (Torenli 2004).

Keyspan Ballpark lies near the end of a line, and it manages to fill its seats perfectly well. Any sports aficionado will tell you that they will take the long subway ride or make the necessary drive to get to the game of their choice. FCRC's own report attests to this by

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[11] And here we note just how easy it would be for him to cry poverty: According to one newspaper, SEC filings and Wall Street analysts reveal that "Forest City leverages its business by carrying a heavy debt load. Merrill Lynch analyst Louis Forbes said Forest City has a relatively high ratio of debt for a real estate development company - about 60 percent of its total market capitalization, which was about $4.9 billion in early June" (Gammon 2004).

relying on the fact that many New Jerseyans will continue to come to Brooklyn for Nets games. Anyone willing to traverse two of the most crowded river crossings in the country only to find themselves stuck in gridlock at the corner of Atlantic and Flatbush will surely not be deterred if the game is held anywhere else in Brooklyn.

8.15 **Instead, it should be acknowledged that having a 19,000 seat arena that will allegedly be filled over 200 nights a year at one of New York's busiest transit hubs is precisely the wrong place to put such a venue.** Brooklynites are well aware that traveling to or from the Atlantic Avenue station during rush hour is already nightmarish, to say nothing of the gridlock at the street level with cars. That this obvious fact has been consistently overlooked suggests to us that no one involved in the planning for this project has ever traveled through the area during rush hour or indeed during many other hours of the day.

Furthermore, FCRC consistently advocated the building of the new Atlantic Terminal Mall (a building without a single parking space included within it) precisely on the grounds that it stood above an excellent mass transit hub; soon to be opened, we now learn from FCRC executive vice president Bruce Bender that "people are going to walk or drive, they're not going to take mass transit [to the mall]" (Kolben 2004b). The Brooklyn Papers' article citing Bender goes on to cite several disappointed local representatives who believe that the Terminal Mall will create traffic chaos and that FCRC was disingenuous in its dealings with local residents. Given these facts, we should indeed be wary of claims that FCRC guarantees that most will ride public transport to the new BAY project which lies just adjacent to the Terminal Mall.

8.16 These are the sorts of economic projections that demand attention but have not been considered in FCRC's report. Simply turn your gaze to other neighborhoods that have had urban renewal projects forced upon them against their will. Many people still harbor grudges against Robert Moses for bringing "progress" to their now forsaken neighborhoods, and many lament the sad disappearance of once vibrant places. We suggest that if FCRC is to build an arena and 17 high-rises without NYC zoning or NYC environmental review, then at least bring us the additional subway line that we will so obviously need.

The Blighted Neighborhood Theory

8.17 The neighborhood is doing fine without the BAY plan. In fact, as the Hevesi report makes clear, Brooklyn as a whole is doing better with each passing year. As Marty Markowitz will be the first to tell you, people are clamoring to come visit and/or live here.

In light of this obvious fact, Brooklyn does not require FCRC to build a publicly subsidized development. In fact, a well known axiom of sports economics is that pro-facility consulting reports, when singing the praises of a potential arena or stadium, fail to mention that the surrounding neighborhood might have experienced economic growth without it. Based on the past 5 to 10 years, forecasting promising growth for Prospect Heights and Fort Greene would not be a stretch by any account.

8.18 Even if we allow for the possibility that sports facilities are helpful for neighborhoods, it is surely worth pointing out that, according to the Hevesi Report, there are several neighborhoods in greater need of state and city aid than Prospect Heights.[12] **Thus, FCRC's plans have nothing to do with some alleged "benevolence" toward the people of Brooklyn, but rather with making profit by utilizing state powers of eminent domain and government coffers that allow Mr. Ratner to deflect risk and privatize the profits of his financially shaky undertaking.**

Cost Per Job

8.19 Mr. Ratner is on the record (Daily News 2004) claiming that the arena complex will bring in 10,000 new permanent jobs. FCRC's report states that public subsidies related to the BAY project will be $449.34m. This yields a cost per job of $44,934. This is 28% higher than the figure DeMause (2004c) reports $35,000 as the federal government limit on cost per job created for projects receiving economic development funds. The cost per job could go well into six figures if we use our estimates of public subsidy ($674.9m to $1027.6m), take into account net additionality (jobs and residents that would be generated anyway in the area without the BAY project), and consider the problems that FCRC will likely encounter in filling the commercial space (note that FCRC has even experienced substantial problems with filling its new tower being built for the New York Times in midtown, see Hamilton 2004).

8.20 Aside from the complaints of many residents who have faced broken promises from FCRC in the past regarding the number of jobs created for locals (e.g., Richardson 1992: 3), let us also look at the alleged job creation that comes with FCRC's past Brooklyn projects. The Atlantic Center Mall received $18.55m in tax breaks and $12.5m in infrastructure aid and $8m in HUD grants (Kovac 2004; Neel 2004), based on the promise that it would bring 1,250 permanent retail jobs (Williams 1996: 1). According to Local Law 69 reports provided to us by Good Jobs New York, FCRC only promised, in actuality, 522 jobs to the government despite these grander claims to the public. And although Local Law 69's mandates companies to provide data on actual jobs "created," FCRC refuses to provide this information. The company is thus not in compliance with the law on this matter, and we must assume that it is not reporting job numbers because they are actually *below* FCRC's promised 522. Many of these jobs comprise workers at the Department of Motor Vehicles and the Empire State Development Corporation, not the classic retail jobs that one finds in successful shopping malls. Even including the public sector jobs, and assuming a total of 500 jobs, this would yield a cost per job to taxpayers of $78,100.

Let's be clear here: either this means that we are subsidizing, e.g., the Pathmark in Atlantic Center Mall to outcompete the Key Foods that is only a few

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[12] But before you allow for this possibility, we urge you to return to our first epigraph.

blocks away. Or, if the subsidies mentioned here are not being passed on as savings to Pathmark and are instead being pocketed by FCRC, then that would reveal the scandalous fact that the subsidies were not needed in order to lure Pathmark to the mall to begin with.

8.21 Or take FCRC's favorite development: MetroTech. Our state comptroller reports that 22,000 people work in MetroTech (Hevesi 2004: 23), even though the previous Borough President Golden promised us that the development would create 35,000 jobs by the year 2000 (Farrell 1996).[13] MetroTech cost the government $325 million in tax breaks, subsidies and infrastructure support (Rothstein 1992). Additionally, the city has provided Bear Stearns and JP Morgan Chase with generous job incentive packages in order to stay there, $36 million (Neel 2004) and $234 million (Good Jobs New York n.d.) respectively. Even setting aside the fact that the city is FCRC's largest real estate tenant and the federal government is his third largest (Thrush & Rayman 2004), and that many other subsidies have gone into MetroTech (e.g., Empire Health at 9 South MetroTech; see Local Law 69 report from 2003 for others), this would amount to $25,900 per job.[14]

9.0 CONCLUSIONS

9.1 As much as possible, we have tried to emulate Dr. Zimbalist's methods to isolate his questionable assumptions and their statistical impacts, thereby generating a more realistic projection of revenues and costs. We have taken a conservative approach, using assumptions based on widely available data such as the Census or the State Comptroller. On several points, we have given Dr. Zimbalist the benefit of the doubt and even calculated additional revenue sources. **And in spite of all these various precautions, our quantifiable data shows losses to taxpayers amounting to 115.2 to 506.2 million dollars. Again, recall that we are also not even including certain obvious costs in this calculation, e.g., increased traffic.**

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[13] This fact alone should give the press pause when it blindly accepts FCRC and our government officials' claims that BAY will "surely" bring 10,000 jobs. In the case of MetroTech, our elected officials were off by more than a 33% in their estimates. If you remove the high number of government jobs at MetroTech, the estimate from Golden starts looking wildly utopian.

[14] If the numbers presented in 8.20 & 8.21 are incorrect, it is likely that they err on the low side, given the tiresome and complex task of tracking down the countless subsidies that FCRC has received over the years (a newspaper in the company's home town of Cleveland has referred to the Ratners as "Cleveland's favorite welfare queens" (Cleveland Scene 2003). Even if they err on the high side, we plead with the authorities to change the laughably inadequate provisions of Local Law 69, which Councilman James Sanders Jr. (the chair of the Council's Economic Development Committee) is thankfully trying to change right now (Croghan 2004). We lend him our wholehearted support in this endeavor. In short, New York City should emulate other cities, counties and states that have instituted much more transparent methods for reporting the success and failure rates of their corporate welfare schemes.

9.2 The potential for hundreds of million dollars in losses is not balanced out by Dr. Zimbalist's non-quantified revenue sources. In the first part of section 8.0, we showed that some of these sources are dubious while more realistic ones are balanced out by a range of costs not taken into account by his study. In particular, we wish to point out the severe economic impact the BAY project will have with regard to transportation. The economic costs of additional traffic delay, subway congestion and related stress will easily balance out, if not exceed, gains in real estate and corporate taxes. Eventually, the severity of the problem will translate into further governmental financial burdens demanded in order to increase transportation capacity.

9.3 With specific regard to the arena, any grand claims of gain to the city and state should be placed in the context of the FCRC report itself, where the author asserts (Zimbalist 2004:2-3) that of all the stadiums and arenas built in the US over the past 15 years, the public has paid for a full 80% of the costs and received little in return. If other elements of the project have such great profit potential, we do not understand why public subsidies are required in place of private cross-financing between, for example, housing and the arena.

9.4 We ask you to recognize the king's ransom that FCRC has requested for this project:

Public Subsidies
Improvements in Infrastructure and Utilities
Use of Eminent Domain
Cheap Land via a No-Bid Process
Permission to Build on a Massive Scale, bypassing cherished zoning and environmental regulations

Could a private developer be considered successful if he requires all of the above to make a profit? In other states and localities, developers pay impact fees out of their own revenues to cover the social costs arising from their projects. Here in New York, the payment is in reverse, with taxpayers handing over hundreds of millions to wealthy developers. This sort of corporate welfare must stop.

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