

**Estimated Fiscal Impact of the Atlantic Yards Project on
the New York City and New York State Treasuries**

Updated Report

by

Andrew Zimbalist

Robert A. Woods Professor of Economics

Smith College

Northampton, Ma.

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Preface to Updated Report

What follows is an update of my original report from May 2004. Principally, my new estimates are adjusted to incorporate new information from the February 18, 2005 MOU among the ESDC, NYEDC, the City of New York and Forest City Ratner Corporation as well as modified specifications for the project. The major changes from the 2004 plan are: (a) the addition of two alternate plans; the General Project Plan and the Alternative Plan;¹ (b) an increase in the number of new residential housing units from approximately 4500 to 6000 for the General Project Plan and to 6800 for the Alternative Plan; (c) a corresponding decrease in the amount of land devoted to commercial space from 1.9 million square feet to 1.2 million square feet in the General Project Plan and to 259,078 square feet in the Alternative Plan; and, (d) a decrease in the direct public contribution to the project from \$449.34 million to \$200 million.

Some numbers in the report are not modified. For instance, I continue to use Nets attendance figures from 2003 and 2004 as a basis for estimating the number of New Jersey residents who will attend Nets

¹ In my report, the numbers I use for the General Project Plan and the Alternative Plan do not include site 5, because site 5 is already zoned. They include only what is known as the Atlantic Yards portion of the project. Were I to include site 5, of course, the estimates for fiscal impact would be larger.

games in the new Brooklyn arena. In part, I make this choice because the composition of the attendance at Nets games in the Meadowlands has already shifted incrementally toward Brooklyn in response to initiatives from the Ratner ownership.

It should be noted that the following estimates are still preliminary. Many of the final details of the Atlantic Yards project remain to be worked out.

I. Introduction

This report offers an analysis of the likely fiscal impact on the budgets of the City of New York and State of New York from the Forest City Ratner Companies (FCRC) arena, commercial and community development project at Atlantic Yards in Brooklyn. To perform this analysis I use a similar approach to the one that I and other academic economists have used to evaluate the economic and fiscal impact of other sports facility projects.

The general conclusion that has come out of the academic literature on this subject is that a city, county or state should not anticipate a positive economic or fiscal impact from a new sports facility. That is, a new sports facility by itself should not be expected to raise employment or per capita income levels in a community. The primary reasons for this outcome are fourfold.

First, despite their large cultural presence, sports teams are modestly-sized businesses. In 2002-03, for instance, the average NBA team generated approximately \$85 million in revenue. This equals less than 0.02 percent of the disposable income of New York City.

Second, most families have a relatively fixed budget for leisure activities. If a family spends \$250 going to a basketball game, it is \$250 it does not have available to spend at local theaters, bowling alleys or restaurants. Thus, a good share of money spent at sporting contests is money that is not spent elsewhere in the local economy – one form of entertainment expenditure substitutes for another.

Third, there are generally larger leakages out of the local economy associated with the professional sports dollar. For instance, NBA players earn about 60 percent of league revenue. The average NBA player earns around \$4.5 million in salary. His nominal, federal marginal tax rate is close to 40 percent and he normally has a high savings rate. Less than one-third of NBA players make their permanent residence in the same city in which they play.² Federal taxes, of course, go to Washington and leave the local economy. Savings enter the world's money market, and, generally, also leave the local economy. A significant share of a player's income finds its way back to his hometown. Thus, a higher share of the

² John Siegfried and Andrew Zimbalist, "A Note on the Local Impact of Sports Expenditures," *The Journal of Sports Economics*, vol. 3, no. 4 (December 2002).

money spent at entertainment venues other than professional sports stadiums and arenas stays in the city.

Fourth, in the vast majority of cases, arena and stadium projects create a budgetary gap. This is because over the last fifteen years approximately 80 percent of the development costs for the average professional sports facility has been publicly funded and the typical lease has shared little facility revenue with local government.³ When sports facilities create a budgetary gap, this gap must be compensated for by either higher taxes or a reduction of services – either of which puts a drag on the local economy.

As a result of this general analysis, over the years I have advised citizen groups, political representatives and government officials that it made little sense to support a stand-alone arena or stadium project with

³ Quantifying the public share in facility construction is complex for a number of reasons, including whether or not the estimate includes land, infrastructure, environmental remediation, maintenance, property and fiscal subsidies, and so on. The most careful, comprehensive and current source of stadium and arena financing is Judith Grant Long, “Full Count: The Real Cost of Public Funding for Major League Sports Facilities and Why Some Cities Pay More to Play,” Ph.D. dissertation, Harvard University, Department of Urban Planning, April 2002, especially Chapter Four. The 80 percent share refers to total development costs and to all of the 65 professional stadiums and arenas built since 1990.

public funds as an economic investment. Supporters of sports facilities invariably have produced reports from hired guns that claim handsome economic benefits. In my view, these reports are performed with a faulty methodology and make unrealistic assumptions.

The FCRC project at Brooklyn's Atlantic Yards, I believe, distinguishes itself from the standard sports facility project in at least two important ways. First, New York City and New York State will benefit from a recapture of tax revenues presently generated in New Jersey. According to my estimates, which I discuss in detail below, this recapture from the team and the arena will be worth approximately \$20.1 million to the public coffers in 2009 and \$1,119.5 million in aggregate revenues over thirty years. The present value in 2006 of this recapture over thirty years equals \$395.8 million.⁴

⁴ Throughout this report I calculate present values back to 2006 based on 30 years of revenues and a 5.5 percent discount rate. As I write in May 2005, the most recent tax exempt issue from the city's OMB carried a 4.75 percent interest. I use 5.5 percent in anticipation of a possible increase in that rate before the Atlantic Yards bonds are issued. The higher rate, of course, lowers the present value of the estimated fiscal gain. Since the construction period for the arena and infrastructural projects lies between 2006 and 2008, one could make a case for calculating the present value for a midway date. Thus, my decision to take the present values back to 2006 is conservative and puts a downward bias in my estimate.

Second, the FCRC project is not a standalone arena, rather it encompasses a 21-plus acre mixed-income residential and commercial community. Among other things, the General Project Plan will add 5850 net new residential units (6000 new units minus 150 condemned units). The Alternative Plan will add 6650 net new residential units (6800 new units minus 150 condemned units.) Given the housing shortage in New York City, it seems reasonable to assume that close to 5850 new households will reside in the city when the project is fully built out (6650 new households with the Alternative Plan). Along with the new households, taxable income and sales will grow and make a fiscal contribution. When all these units are built, I estimate that they will add additional gross income and sales tax receipts to New York City and New York State equal to \$106.8 million⁵ annually and the present value in 2006 of this tax revenue stream over the subsequent thirty years equals \$1,361.9 million. The Alternative Plan will add additional gross income and sales tax receipts of \$125.2 million annually and the present value in 2006 of this tax revenue stream over the subsequent thirty years equals \$1,596.4 million. As I shall elaborate, several other sources of new tax revenue will also be created by the project.

⁵ This figure is the annuitized value of the revenue stream beginning in 2008 using a WACC of 5.5 percent. Since most revenue streams from the Atlantic Yards project commence in 2008 or after, I use 2008 as the base for annuity calculations.

II. New Sales and Income Tax Revenue from the Arena Project

In a typical case, a community builds a facility either to retain an existing team or attract a new team to the area. In either case the lion's share of the money spent at the new arena or stadium is diverted from existing local expenditures, i.e., it does not constitute additional consumer spending. In a broad sense, the same is true with the proposed Nets arena in Brooklyn; the difference in this instance is that while the spending in the larger media market is mostly reshuffled within the area, it is relocated from one tax jurisdiction to another. Tax collections that presently go to New Jersey (and used to go to New York during the Nets early years) will now go to New York City and New York State.

In particular, incomes of Nets players, executives and staff will be taxed in New York State and partially in New York City (if the individual lives in one of the five boroughs). Further, part of the spending at Nets games and other events at the Atlantic Yards arena will be new to New York City and New York State and sales taxes collected from this spending will be net increments to the public coffers.

The issue is not whether or not there will be new tax revenues for New York, but how large these incremental revenues will be. To make a reasonable estimate of this increment, it is necessary to make a variety of assumptions. Since the Atlantic Yards arena is projected to be completed

for the 2008-09 season, the first assumption involves the payroll for the Nets in that year. Based upon the team's existing payroll commitments and roughly a 5 percent yearly growth in average salaries, it is estimated that the Nets payroll in 2008-09 will be \$66.5 million.⁶ I assume that 30 percent of the Nets players will live in the five boroughs. These players will pay New York City as well as New York State income tax. The remaining 70 percent will pay only New York State tax. At the players' high income levels, based on the existing effective rates, I project an effective income tax rate of 4.04 percent for New York City and of 6.46 percent for New York State.

Players spend approximately 75 percent of their active season (including both playing and practice time) in New York State and, hence, pay taxes on only 75 percent of their salary in New York. The rest they

⁶ Many of the numbers used in this report concerning Nets attendance, ticket prices, construction costs and other items come from projections done by or for the Nets. I have discussed these estimates with the Nets and they seem reasonable to me. The Nets project that the arena will not host an NHL team and that it will host 226 events during the year (assuming the eventual closing of CAA, no new arena in Newark, no NHL and no minor league hockey events at the Atlantic Yards arena.) The Nets project out three scenarios over time based on aggressive, moderate and conservative assumptions. I use the estimates from their moderate scenario.

pay to the states where they play their road games. Compensating for this in part, visiting team players must pay an income tax in New York State for that share of their income that is earned in the state. Thus, I take 25 percent of the projected average NBA team payroll in 2008-09 to estimate state taxes paid by visiting team players.

Similarly, I then make assumptions about the salary levels and residence for Nets executives and staff in order to estimate the income taxes they pay to New York City and New York State. Finally, I estimate the income taxes paid by the arena workers at the Atlantic Yards arena.⁷ To estimate the latter, I only include that share of the arena workers taxes that I consider to be based on new spending in New York.⁸

Table One below summarizes the estimated income tax collections from the FCRC arena project in 2009 as well as the present value (PV) in 2006 of all collections during the thirty-year period between 2009 and

⁷ I assume that the arena worker salaries will total \$16.4 million and that 75 percent of the arena workers will live in the city.

⁸ This share is the estimated portion of spending at the arena that is new to New York. As is explained below, this portion is different for spending at Nets games than it is for spending at other arena events. Thus, I take the share of new spending for Nets games and multiply it by the share of total arena ticket revenue generated by the Nets as opposed to other events at the arena. The resulting share is 48 percent. Thus, 48 percent of the arena workers' taxes are considered to be based on new spending in New York.

2038. To estimate these values during 2009-2038, a variety of different assumptions are made about annual growth rates.⁹ A more detailed explanation is provided in the spreadsheet that is attached in the appendix to this report.

Table One
Estimated New Income Tax Revenue from Arena
(millions of dollars)

	<u>Players</u>	<u>Executives</u>	<u>Staff</u>	<u>Arena</u>	<u>Total</u>
2009	7.47	1.20	1.16	0.64	10.47
PV ¹⁰	169.10	27.14	20.21	11.19	227.64
Annuity ¹¹	13.66	2.19	1.63	0.90	18.39

The second part of new tax collections for New York from the Atlantic Yards arena will come from sales taxes. The key to estimating

⁹ Assumed annual growth rates are as follows: salaries of players, executives and staff, 4.7 percent; salaries of arena workers, 3 percent. Effective tax rates in the city and the state are also assumed to be constant.

¹⁰ This represents the present value in 2006 of the revenues generated from 2009 through 2038, using a weighted average cost of capital (WACC) of 5.5 percent.

¹¹ Annuitized value, using a WACC of 5.5 percent and 2008 as a base year.

this value lies in identifying what expenditures at the arena are new to New York and what part are diverted from expenditures at other entertainment venues in New York.

The first step is to estimate how many fans on average who presently attend games at the Continental Airlines Arena (CAA) will also attend games at the Atlantic Yards Arena. The average attendance for the first 32 Nets home games at CAA for the 2003-04 season was 14,538. The average attendance at CAA for the first 32 games of the 2002-03 season was 14,992. During the 2002-03 and 2003-04 seasons, then, the average was 14,765.

Of this number, how many will attend games at the new Brooklyn arena? I have figures for the state of residence of current Nets season-ticket holders. On an adjusted full-season basis, 67.9 percent of these holders reside in New Jersey. The large majority of the remaining holders live in New York, with a small proportion living in Connecticut and even smaller share in Pennsylvania. I do not have Nets data on the state of residence for the fans who are not season-ticket holders, but I do have data on the state of residence of fans who attend New York Jets games at the Meadowlands.¹² I use these proportions for the balance of Nets fans.

Many Nets fans who live in New Jersey will not make the trip to Brooklyn to see the team. Out of interest in and loyalty to the team,

¹² These proportions are: 51 percent from New Jersey, 44.7 percent from New York and 4.3 percent from Connecticut.

however, others will attend games in Brooklyn. Some fans from New Jersey who live south of the Goethals Bridge or Outer Bridge Crossing may even find it as easy to travel to Brooklyn as to the Meadowlands. There are no available surveys which estimate the share of New Jersey fans who intend to attend games in Brooklyn.¹³ Thus, I have to estimate this proportion.

My base assumption is that 30 percent of New Jersey fans of the Nets will also attend games in Brooklyn.¹⁴ Because this figure may either be too low or too high, I also did a sensitivity analysis for different proportions.

For current Nets fans from Connecticut and New York, I assume that if they are willing to attend games in New Jersey, they will also be willing to attend games in New York. To be sure, even if some New York fans of the Nets do not follow the team to Brooklyn, there will still be roughly the same new tax revenues for the state and city. Such New Yorkers will now have the entertainment funds previously spent at CAA to spend in New York. The only other assumption I make is that of the 27

¹³ Even if such surveys existed at present, their reliability would be suspect because many New Jersey fans are likely to have an initial negative emotional reaction to the move.

¹⁴ It will be recalled that 32.1 percent of Nets season-ticket holders are from outside of New Jersey.

current season-ticket holders from Pennsylvania, none of them will buy season tickets or otherwise travel to Brooklyn to watch the Nets.

With these assumptions, then, of 8,936 New Jerseyans who attend a typical Nets game at CAA, 2,681 will attend a typical game in Brooklyn. Of the 5,829 current Nets attendees from outside New Jersey, 5,802 will attend a typical Nets game in Brooklyn.

FCRC projects that over the first five years of the Atlantic Yards arena, the average attendance will be 17,191 (out of the arena’s 18,000 capacity for regular-season basketball games.) From the above estimate, 49.3 percent of these fans will come from among those who attended games at CAA. These fans will be bringing new revenue to the New York economy.

Table Two
Composition of Attendees at Atlantic Yards

Average Nets Attendance In New Jersey			Average Nets Attendance In Brooklyn			
	From			From		
<u>Total</u>	<u>NJ</u>	<u>Outside NJ</u>	<u>Total</u>	<u>NJ</u>	<u>Outside NJ</u>	<u>New NY Fans</u>
14,765	8,936	5,829	17,191	2,681	5,802	8,708

The balance of the 17,191 attendees at the Atlantic Yards arena, or 8,708 people (50.7 percent), will be New Yorkers who previously did not

attend games at CAA. The money they spend at the new Brooklyn arena will be largely recirculated within the New York economy, and for the most part will not represent new revenues.

However, some of these expenditures will be new either to the New York City or the New York State economy or both. The sources of this new money are the following. First, some people from out of state (principally from New Jersey and Connecticut) will be new Nets fans. They will be attracted either to the new Frank Gehry-designed arena, to new players on the team or to the team itself. Second, other attendees will attend Nets games as an add-on to their leisure expenditures. Primarily, these individuals will be from upper income brackets who do not need to reduce other leisure-time expenditures in order to be able to afford Nets games. Third, others may attend Nets games and reduce out-of-town leisure spending. Fourth, some corporations may purchase premium seating and catering services as an add-on to their entertainment budgets. Fifth, some of the spending at the Atlantic Yards arena will come from fans in Nassau County, Suffolk County, or Westchester County who did not attend games at CAA. Together these three counties have a population of 3.74 million. When these fans spend money at the new Atlantic Yards arena on tickets, concessions, or novelties, it will bring new sales tax revenue to New York City (though not to New York State.)¹⁵

¹⁵ I leave parking out of my analysis because the plans for constructing and managing arena parking are not yet finalized.

Overall, for the New Yorkers attending Nets games in Brooklyn who did not previously attend the team's games at CAA, I estimate that 20 percent of the spending will be new to the New York economy. Thus, I add 20 percent of the estimated 50.7 percent new Nets fans from New York (or 10.1 percentage points) to the 49.3 percent to arrive at a 59.4 percent share of spending at the Atlantic Yards arena being new to the New York economy. I then multiply all sales tax revenue derived from Nets games at the arena by .594 to estimate the net increment in sales tax collections provided to the city and state treasuries. Next, I use the same 20 percent to estimate the share of non-Nets arena spending that is new to New York. That is, all sales taxes derived from estimated spending at concerts, family shows and other sporting events at the arena are multiplied by 0.2. New sales taxes derived from the Nets and non-Nets events are then added together. These calculations are summarized in Table Three below.¹⁶

¹⁶ Since the spending is estimated as new to the economy, a multiplier of 1.5 (which is explained below in the text) is applied.

Table Three
Estimated New Sales Tax Revenue from Arena
(millions of dollars)

	<u>Admissions</u>	<u>Concessions</u>	<u>Novelties</u>	<u>Total</u>
2009	7.68	1.53	0.41	9.62
PV ¹⁷	135.12	26.02	7.00	168.14
Annuity ¹⁸	10.11	1.95	0.52	12.58

When I alter the assumption that 30 percent of current Nets attendees from New Jersey also attend games at the Atlantic Yards arena, the following results obtain. When the share is lowered to 25 percent, new sales tax revenues fall from \$9.62 million in 2009 to \$9.37 million, or a decrease of 2.6 percent. When the assumed share is raised to 35, the sales tax revenues grow to \$9.9 million in 2009, or an increase of 2.9 percent.¹⁹

¹⁷ This represents the present value in 2006 of the revenues generated from 2009 through 2038, using a WACC of 5.5 percent.

¹⁸ Annuitized value, using a WACC of 5.5 percent.

¹⁹ If we assume that only 20 percent of Nets fans from New Jersey come to Brooklyn, the projected 2009 sales tax revenues fall to \$9.36 million. In contrast, if 40 percent come, the 2009 revenues rise to \$10.48 million.

III. New Sales and Income Tax Revenue from the Housing Project

The FCRC Atlantic Yards General Project Plan will eventually create 5850 net new household residential units.²⁰ The Alternative Plan will add 6650 new households. Given the housing shortage in New York City, I assume that these new units will allow the number of the city's residential units also to grow by the same amount. While it is true that some of the new residents in the Atlantic Yards community will have relocated from elsewhere in the city, it is also true that the vacated units will now be available for other occupants. If the vacated units are dilapidated and earmarked for condemnation, then presumably they would have been condemned with or without the additional units at Atlantic Yards.

It might also be objected that the new units will simply attract relocated New Yorkers and that their previous residences will lie vacant. To the extent that this occurs in the short run, it will put downward pressure on city rents which eventually will cause the number of residents to rise.

Based on the mixed-income specifications of the project and the combination of low income (20 percent of the rental units), middle income (30 percent of the rental units) and market (50 percent of the rental units) and condominiums, I project that the average annual income of all

²⁰ The calculations are net of the approximately 150 units that are projected to be condemned and relocated.

households in the new community will be \$94,875.²¹ Using the estimates of 5850 net new housing units and \$94,875 income per household unit, the total amount of income earned in the community will be \$555 million a year, net of condemned units, once the community is fully built out. The Alternative Plan calls for 4500 rental units and 2300 condominium units with an average income of \$97,831. Once fully built out, the earned income in the community will be \$650.6 million annually.

This income is subject to both New York City and State taxes (with average effective rates of 3.3 percent and 5.2 percent respectively at

²¹ The current income upper limit for a family of three to qualify as “low income” is \$28,250 and to qualify as “middle income” is approximately \$142,000. Assuming the average low income household in the project has an income of \$20,000, the average middle income household has an income of \$75,000 and, using a very conservative estimate, the average market household has an income of \$120,000, the average income of project rental households would be \$86,500. Assuming all of the condominiums have household incomes of \$120,000 (likely an underestimate because they are homeowners rather than tenants), the average incomes of all of the new housing units is \$94,875. The current plan is for there to be 4,500 rental units and 1,500 condominiums in the General Project Plan.

this income level). Further, based on research by AKRF²², for households with before-tax income of \$94,875, 31.3 percent of their before-tax income will be spent on taxable, local items.

Since these units are new to the New York City housing stock, most of this income is new to New York City and New York State. The share that is not new to New York State will be the share of households that have relocated to Atlantic Yards from elsewhere in the state. In the base case, I assume this share to be 40 percent.²³ Apartment buildings and condominium buildings will be added at a rate of approximately two per year between 2007 and 2011, and one per year between 2012 and 2015.

Because new income is generated, there is also a multiplier effect on the New York economy. That is, the new income yields new consumer spending at new and existing retail outlets. This spending yields new income for the retailers and their local suppliers, which, in turn, engenders more local spending. And so on.

²² AKRF is an economic consulting firm in New York City that has done modeling and tax estimates in connection with this project.

²³ I also conducted a sensitivity analysis on this assumption. Results are reported below.

Assuming a combined marginal tax rate of .30, a marginal propensity to save of .05 and a marginal rate of import into the New York economy of .50,²⁴ I estimate a local multiplier of 1.5.

Based on these parameters, I estimate the new annual tax revenue from the 5850 net new housing units as follows.

²⁴ A local marginal propensity to import of .50 is used in the academic literature on the economic impact of sports facilities. In this case, it is conservative both because of the larger size of New York City than the typical city and because I am using the same import propensity (and, hence, multiplier) for New York State. The import propensity is likely to be lower and the multiplier higher for the state. Hence, the procedure in the text is likely to underestimate the fiscal income tax capture. The estimate is also conservative because it does not include the positive income impact on the city's and state's economy from the net new revenue flowing into the public treasuries. Assuming these revenues are spent, they would raise area income and, thereby, also raise subsequent tax capture. To a smaller extent, there is also a modest overestimate built into my method; when New Yorkers divert some of their leisure spending from non-professional sport activities to the Nets, they will be shifting to activities with a larger leakage out of the local economy. This latter effect is certain to be smaller than the two previously mentioned factors.

Income = \$555 million

Gross State Income Tax = (\$555 million) x (.0522) = \$29.0 million

Net State Income Tax = (\$29.0 million) x (.6) = \$17.4 million

After Multiplier, (\$17.4 million) x (1.5) = \$26.1 million

City Income Tax = (\$555 million) x (.0332) = \$18.4 million

Net City Income Tax = (\$18.4 million) x (.9) = \$16.6 million

After multiplier, (\$16.6 million) x (1.5) = \$24.9 million

Thus, when fully built out, the housing portion of the General Project Plan will provide an estimated annual flow of \$29.0 million in new income tax revenues to the state and of \$30.7 million in new income tax revenues to the city. The Alternative Plan will provide an annual flow of \$33.9 million in new income tax revenues to the state and of \$36.0 million in new income tax revenues to the city.

In addition, using the AKRF estimate that 31.3 percent of before-tax income will be spent on taxable goods in New York City, I can estimate that \$173.7 million will be spent on such goods from residents in the housing development once the project is fully built out. The combined state sales tax rate (including the MTA tax) is 4.38 percent. Since I am assuming that 60 percent of the project's residents are new to New York State, new sales tax revenues for the state will be \$4.56 million annually in the first round and \$6.84 million annually after all the rounds (including

the effect of the multiplier) once the project is fully built out. The similar computation for New York City yields \$10.42 million annually. In the Alternative Plan, \$203.6 million of before-tax income will be spent locally generating \$8.03 million in new annual sales tax for the state and \$12.21 million for New York City.

To be realistic, however, the foregoing estimates must be adjusted downward since the new housing units will be built gradually over time. In each year between 2007 and 2011, the plan is to build approximately 14.22 percent of the total units; and, for each year between 2012 and 2015, the plan is to build an additional 7.22 percent of the units. Thus, in 2007, the total new income tax revenue to the city and state would be \$6.97 million (or 14.22 percent of the \$49 million fully built-out figure); and the total new sales tax revenue to the city and the state would be \$2.24 million (or 14.22 percent of the \$15.75 million fully built-out figure.)

Assuming that household income will grow by 4 percent in nominal terms over time and that the city's and state's weighted average cost of capital (discount rate) is 5.5 percent, I then calculate the present value of the new tax revenues for the city and state. The present value (in 2006) of these tax revenues is \$1,361.9 million²⁵ for the General Project Plan and \$1,596.4 million for the Alternative Plan.

²⁵ For this estimate there is no difference between sales or income generated on the 21-plus acres of the Atlantic Yards project and that

If one assumes that 50 percent of Atlantic Yards households previously lived in New York State, then the present value of the incremental tax revenues would equal \$1,266.01 million²⁶ in the General Project Plan and \$1,483.98 in the Alternative Plan.

IV. New Sales and Income Tax Revenue from the Commercial Buildings

The FCRC Atlantic Yards General Project Plan will eventually create 1.2 million square feet of first-class office space. The Alternative Plan will create 259,078 square feet of new commercial space. Since 1988, downtown Brooklyn has absorbed an average of 600,000 square feet

generated elsewhere in New York City. To be sure, some of the new retail activity in the project area will simply replace presently existing activity.

²⁶ In contrast, if 30 percent of the households previously lived in New York State, then the tax revenues would be \$1,467.16 million for the General Project Plan and \$1,719.76 million for the Alternative Plan. A sensitivity analysis of the percent of households previously living in New York State is presented in the table below.

Percent of Households Previously Residing in New York State	Present Value of Income and Sales Tax Revenues from Housing Units (\$ in millions) General Project Plan	Present Value of Income and Sales Tax Revenues from Housing Units (\$ in millions) Alternative Plan
20%	\$1,572.42	\$1,843.14
30%	\$1,467.16	\$1,719.76
40%	\$1,361.90	\$1,596.37
50%	\$1,256.64	\$1,472.99
60%	\$1,151.38	\$1,349.61
70%	\$1,046.12	\$1,226.23

of new office space per year. As of early April 2004, the vacancy rate of class A office space built in Brooklyn since 1985 was less than one percent.²⁷

While some of the new office space from this project will likely substitute for older or more expensive office space in Manhattan, a significant share of it will enable New York City to accommodate additional businesses. The increased supply of office space at Atlantic Yards will also put downward pressure on commercial rents in the NYC market.

To the extent that the new office space brings new businesses and workers to New York City and/or New York State, there will be additional income generated in the local economy.²⁸ This income, in turn, will generate additional tax revenue. It will also engender new local sales that will raise public collections via the sales tax. Below I estimate these fiscal gains.

The construction plans call for 1,217,505 square feet of office space to be added in equal increments of 405,835 square feet respectively in 2008, 2010 and 2012. Using a standard ratio of one employee per 250

²⁷ The precise vacancy rate was 0.61 percent.

²⁸ Naturally, to the extent that workers in the commercial space at Atlantic Yards also reside in the new housing development, there will be an overlap in the new income that I estimate. My estimate below adjusts for this possibility.

square feet, there would be 487 employees added at Atlantic Yards in 2008, 487 in 2010 and 487 in 2012. The Alternative Plan calls for 259,078 square feet of new commercial space. It is projected that the entire space would be built out in 2008, adding 311 employees.

I make the following assumptions. First, for the base case I assume that only 30 percent of the businesses are new to New York City and New York State.²⁹ Second, of the new businesses' employees, I assume in the base case that 60 percent are new to the workforce in New York State³⁰, 100 percent live in New York State, 60 percent live in New

²⁹ I subsume those who possibly overlap by both living and working in Atlantic Yards within the 70 percent of businesses not considered to be new to the city and state.

I suspect 30 percent is a low estimate of the percent of Atlantic Yards businesses that are new to New York. If I assume that the percent of Atlantic Yards businesses that are new to New York is 40 percent (rather than 30 percent), the estimated new income tax revenues to the city and state in the General Project Plan rises to \$154.0 million. If I assume 50 percent are new, the estimate increases to \$192.5 million. At 20 percent, the estimate would be \$77.0 million.

³⁰ The assumption that 60 percent of the Atlantic Yards office employees are new to the New York economy also is conservative. There are five options for these employees: one, they moved into the area, in which case they are new workers; two, they were previously unemployed in the area,

York City, and 30 percent of this group lived previously in New York City. I assume that the average salary of Atlantic Yards employees is \$66,000. My method implicitly assumes that all the employees were previously employed at the same average salary. To the extent that some

in which case they are new; three, they were previously employed in the area and they are replaced by another worker in the job they vacate, in which they case they constitute a net addition to the NYC labor force; four, they were previously employed in the area and they are not replaced in their former job which was slated for near-term elimination, in which case their Atlantic Yards job is a net addition to the NYC economy; five, they are not replaced because their prior job was slated for elimination by attrition. It is only in the latter case that the Atlantic Yards employment is not a direct net addition to the local labor force and even in this case it is productivity enhancing in the short run and job creating in the long run. Thus, 60 percent appears to be a very conservative proportion. A sensitivity analysis (in present value of tax revenues) of the percent of employees that are new to the workforce is presented below for the 2006 present value of new tax revenues generated in the General Project Plan.

Percent of Employees That Are New to the State Workforce - General Project Plan	Income Tax (millions)	Sales Tax (millions)	Total (millions)
40%	\$89.0	\$38.5	\$127.4
50%	\$102.2	\$43.4	\$145.6
70%	\$128.7	\$53.2	\$181.9
80%	\$142.0	\$58.1	\$200.1

of the employees were previously unemployed or working at a lower salary (which is likely since something attracted them to work at Atlantic Yards), my estimate of tax revenues will be too low. Further assuming that the average salary will grow at 4 percent annually and that the multiplier, as above, is 1.5, the present value in 2006 of the income tax revenues to the city and state over 30 years is \$115.5 million for the General Project Plan and \$26.9 million for the Alternative Plan.

Retaining the same assumptions from the base case, AKRF estimates that the average individual with a \$66,000 income will spend 40.6 percent of that in New York City. Following the same procedures to estimate the new sales tax collections as above, I estimate the 2006 present value of new sales tax collections resulting from the commercial office employees at Atlantic Yards to be \$48.3 million for the General Project Plan and \$11.3 million for the Alternative Plan.

V. Sales and Income Taxes from New Hotel in Alternative Plan

The demand (occupied room nights) for New York City hotels has grown at an average annual rate of 5.0 percent over the last four years, while the supply has grown at 1.45 percent. As a result, the average hotel occupancy rate has increased from 73.7 percent in 2002 to an estimated 84.5 percent in 2005.³¹ Demand for hotel space in downtown Manhattan and Brooklyn will likely grow more rapidly with the development of

³¹ Estimate from Ernst and Young's *National Lodging Report*.

Ground Zero. Further, the hotel contemplated in the Alternative Plan is in the high-3 to low-4 star range. The only Brooklyn competitor in this range is the Marriott that is adjacent to MetroTech. The contemplated hotel at Atlantic Yards will have several demand generators: the arena, the new commercial development and residential development, the Brooklyn Academy of Music, and the 8 million existing square feet of commercial space in downtown Brooklyn. Thus, it is likely that a very substantial portion of the use of the contemplated hotel would constitute new use, as opposed to substituting for use of other hotels. The new use would generate new occupied hotel nights, new sales tax revenue, new employees and new income tax revenue. While it seems likely that 80 to 90 percent of the use of an Atlantic Yards hotel would constitute new demand in New York City, to be conservative in the calculations that follow I assume that only 60 percent of the use is new.

The contemplated hotel would have 150 rooms, a restaurant with 175 seats, a lobby bar with 125 seats and meeting room space of 6,300 square feet. The hotel would open in October 2008 and the average daily room rate is projected to be \$190 in 2005 dollars. Assuming a stabilized occupancy rate of 80 percent and typical ancillary revenues, given the New York City sales tax, occupancy tax and hotel unit fee, the total sales

and occupancy tax revenue to the city would be \$1,487,441 in 2009.³² If 60 percent of this is new to the city, the net additional revenue would be \$892,465 before the multiplier. After the multiplier of 1.5, the final effect would be to increase tax revenues by \$1,338,696 in 2009. Growing this at 3 percent annually, the present value of these hotel sales tax revenues over 30 years is \$16.6 million.

Further, the hotel would add an estimated 144.5 full-time employees. Their average hourly wage would be \$21 and their total wage and salary income would be \$6,267,040. At the appropriate city and state income tax rates, this employment would generate \$535,205 in tax revenues. If 60 percent of this were new, the net increase would be \$321,123 and after the multiplier it would be \$481,685 in 2009. Growing this at 3 percent annually, the present value of these hotel income tax revenues over 30 years is \$8.6 million.

The hotel would also generate other taxes (property, profits) that I omit from this estimate.³³ Together the present value of the hotel sales and income tax revenues equals \$25.2 million.

³² Restaurant and bar revenue is assumed to be \$876,000 annually.

Yearly catering revenue is assumed to be \$2.5 million and annual revenue from telephone and other services is assumed to be \$219,000.

³³ I also omit revenue from the last trimester of 2008. I do this to be conservative given the possibility of delays in opening the hotel, even

VI. Property Tax from Improvements and Ground Rent

Under New York's Industrial and Commercial Incentive Program (ICIP), the commercial buildings at Atlantic Yards will qualify for tax abatement. During the first sixteen years, there will be no property tax due on the improved value of the real estate. During the next nine years, the tax is phased in. Thereafter, the full property tax is levied. Setting the improved value at 10 percent above the 2004 average assessed value for class A office space in downtown Brooklyn, I use \$55 per buildable square foot. This value is "inflation protected" under ICIP through year 13. Thereafter, I increase the \$55 assessed value per buildable square foot improved value by 2.5 percent annually, which is the overall growth rate in real estate taxes over time. To this, I apply the property tax rate of 12.5 percent and derive the 2006 present value of the taxes collected through 2036. This present value estimate is \$28.64 million. The present value of the property tax for the Alternative Plan is \$6.1 million.

Further, the project will pay ground rent to the public sector equal to the site's fair market value, estimated initially at \$1.70 per square

though in this case it is timed to be coincident with the opening of the arena.

foot.³⁴ This rate is projected to increase to \$2.04 after 15 years and by an additional 7.5 percent every five years thereafter. The present value in 2006 of these projected ground rent payments through 2035 is \$27.44 million for the General Project Plan and \$5.84 million for the Alternative Plan.

Real estate taxes will also be paid to New York City on the assessed value of rental units and condominiums at Atlantic Yards. These tax payments are derived by estimating the net operating income of the rental units, capitalizing this stream at a 14.28 percent rate to arrive at fair market value, taking 45 percent of this to arrive at assessed value and then applying a 12.6 percent tax rate.³⁵ These tax payments are then subject to an abatement under the 20/30/50 program, requiring no real estate taxes on the rental units for 21 years, then phasing in over five years, with full taxes thereafter. The abatement schedule for the condominiums provides for a full abatement for 11 years, a phase in over five years and full taxes thereafter. Accounting for these standard abatements, the estimated total rental and condominium taxes paid over the 30-year period for the General

³⁴ \$1.70 per square foot is the amount FCRC is paying to the MTA for the Bank of New York building, which opened in May 2004, that is directly across the street from the Atlantic Yards project site.

³⁵ The methodology to arrive at a fair market value for the condominium units is based on using a \$22.19 value per square foot instead of net income, but is otherwise the same.

Project Plan is \$508.1 million with a 2006 present value of \$127.3 million. The Alternative Plan will generate a total of \$677 million over a 30-year period with a 2006 present value of \$173.2 million.

Further, according to city code, 2400 parking spaces will have to be provided for Atlantic Yards residents in the General Project Plan and 2720 in the Alternative Plan. Parking fees in Brooklyn are taxed at 10 percent and will generate an estimated aggregate of \$29.1 million over the 30 years with a present value of \$11.2 million in the General Project Plan and an aggregate of \$33 million with a present value of \$12.6 million in the Alternative Plan.

Finally, FCRC is buying up a substantial portion of the real estate at the Atlantic Yards development. These land purchases are subject to both the state and city transfer taxes and the city mortgage recording fee. The former will generate \$6,687,297 and the latter \$3,788,018 in one-time revenue for the public coffers.

In addition to the estimated tax revenues from the arena, the income and sales taxes from the residential and commercial developments, the property taxes on improvements and the ground rent, the parking taxes from the residential development, and, the transfer and mortgage recording taxes, the project will generate the following tax revenues that are not included in my estimate: (a) increased real estate taxes from the

increase in property values in the surrounding neighborhood;³⁶ (b) increased taxes from the increased economic activity resulting from the privately-financed (and part of the publicly-financed) portion of the construction at Atlantic Yards;³⁷ (c) incremental revenue from additional

³⁶ One recent study (“Ring Around the Rose Bowl: The Spatial Economic Impact of Stadiums and Arenas,” 2003) by Brad Humphreys and Dennis Coates, using data from the 1990 U.S. Census, estimated that property values within one-quarter mile of a basketball arena were 68 percent higher than the average values within a 2.5 mile radius of the facility. This estimate is statistically significant at the .01 level.

³⁷ The amount of the increased activity will be a function in part of the degree to which the local construction industry is operating at capacity. If the local construction industry is at full employment, then the Atlantic Yards project will only generate new income to the extent that it encourages new, local workers or new capital to enter the sector. To the extent that Atlantic Yards construction is financed out of new tax revenue generated by the project, it increases the level of local economic activity. However, whether the city or state spends the extra revenue on helping to build a basketball arena in Brooklyn or on repairing the FDR Drive makes little, if any, difference to the city’s economy. Of course, the increased tax revenues from the project lead to higher government outlays which also generate increased activity, and, subsequently, more tax revenues.

ridership on the MTA;³⁸ (d) collections from the 2.5 percent state insurance premium tax; (e) collections from the 2.5 percent state utility gross receipts tax; (f) income taxes from the Nets profits (which pass through to the owners' individual income taxes) and the other businesses which will locate within the commercial and retail portion of the project;³⁹ (g) sales taxes on the expenditures of visiting teams and acts on city hotels, restaurants and transportation; and, (h) parking taxes at arena events. Even though they are not estimated, these additional sources of tax revenue are likely to be quite substantial.

Considering only the new revenue sources that I was able to estimate, over thirty years the total addition to the city's and state's tax revenues from the Atlantic Yards project amount to \$6.0 billion. The annuitized value of these new revenues is \$163.8 million and their present value is \$2.1 billion. The Alternative Plan will provide city and state tax revenues of \$6.4 billion over thirty years. The annuitized value of these new revenues is \$164.6 million and their present value is \$2.3 billion. Table Four below summarizes the present value of tax generation from these different sources.

³⁸ There likely would be some offset to this additional revenue from increased security costs.

³⁹ This number, of course, would have to net out the reduced taxes from the lost income of the condemned businesses if they were not relocated elsewhere in New York City.

Table Four

Estimated Present Value in 2006 of Tax Revenue Generation by Source⁴⁰

Millions of Dollars

	General Project Plan			Alternative Plan		
	Present Value	Annuity	30-Year Aggregate Tax Revenues	Present Value	Annuity	30-Year Aggregate Tax Revenues
Team/Arena:						
Income	227.6	18.4	661.8	227.6	18.4	661.8
Sales	168.1	12.6	457.7	168.1	12.6	457.7
Residential:						
Income	1,030.7	80.8	2,819.9	1,208.1	84.7	3,305.4
Sales	331.2	26.0	906.3	388.3	30.4	1062.3
Commercial:						
Income	115.5	8.8	323.9	26.9	2.1	72.2
Sales	48.3	3.7	135.4	11.3	0.9	30.2
Property Tax on Improvements	28.6	2.0	115.0	6.1	0.4	24.5
Ground Rent	27.4	1.9	67.0	5.8	0.4	14.3
Rental/Condo Real Estate Taxes	127.3	8.8	508.1	173.2	11.9	677.0
Rental/Condo Parking Taxes	11.2	0.8	29.1	12.6	0.9	33.0
Transfer & Mortgage Recording Taxes	10.5	--	--	10.5	--	--
Hotel:						
Income	--	--	--	8.6	0.6	22.9
Sales	--	--	--	16.6	1.3	40.2
Other	not estimated	not estimated	not estimated	not estimated	not estimated	not estimated
TOTAL	2,126.4 plus	163.8 plus	6,024.2 plus	2,263.7 plus	164.6 plus	6,401.5 plus

⁴⁰ Again, the present value is based on revenue flows over 30 years. Both the present value and annuity assume a WACC of 5.5 percent.

VII. Projected Contributions to the Project from NYC and NYS

According to the February 18, 2005 MOU among the ESDC, NYEDC, the City of New York and FCRC, the city and state will each make capital contributions of \$100 million to the project.⁴¹ These capital contributions can be used to fund land acquisition for the arena, site preparation and public infrastructure improvements on and around the arena site (including streets, sidewalks, utility relocation, environmental remediation, open space improvements, public parking garages). The total direct public contribution to the Atlantic Yards project is \$200 million.⁴²

In addition to the direct financial contributions to the Atlantic Yards project, it is to be anticipated that the city will incur certain ongoing

⁴¹ In my initial report of May 1, 2004, I estimated that the total public contribution would include \$9 million of annual payments each from the city and state for thirty years (with a present value of \$261.61 million) and \$187.73 million of other infrastructure contributions. The present value of the total public contribution in my first report, then, was \$449.34 million. The negotiated MOU indicates that the public contribution will be as much as \$249.34 million less than this initial estimate.

⁴² The MOU also allows for the possibility of additional public contributions, to be made at the discretion of the city and the state, to support extraordinary infrastructure costs relating to the mixed-use residential development at Atlantic Yards. Thus, the ultimate public contribution may rise above the \$200 million level.

costs connected to infrastructural maintenance, sanitation and security. Further, city services, such as public schools and fire protection, will also be extended to cover more citizens. As a general rule, the provision of these services involves large fixed costs and relatively small variable costs. That is, as the population grows the incremental costs are minor relative to the large investment expenditures in the initial infrastructure and plant. Tax collections, in contrast, are at the same level as those for other citizens at the same level of income.

FCRC has made an initial estimate of the city's operating expenses at Atlantic Yards. Based on conversations with former budget officials, FCRC concludes that the increment in fire and police budgets would be negligible. Commercial sanitation services are paid directly by the affected businesses. Residential sanitation for the projected Atlantic Yards population is estimated based on the per capita sanitation budget of the city. The present value of these costs (over thirty years at a 5.5 percent discount rate) is \$7.2 million in the General Project Plan and \$8.0 million in the Alternative Plan. The incremental schooling costs are estimated based on a per capita educational allocation from the city budget. The present value of these costs over thirty years is \$285.0 million in the General Project Plan and \$316.0 million in the Alternative Plan.⁴³ The

⁴³ This is based on the share of the NYC population in public schools and an average variable cost of \$11,000 per student per year. As suggested above, marginal costs are likely to be below average costs. For instance, if

present value of the total estimated operating costs, then, is \$292.2 million in the General Plan and \$324.0 million in the Alternative Plan. To be conservative, I augment this figure by 10 percent to arrive at my estimated present value of incremental public operating expenses due to the FCRC Atlantic Yards project of \$321.4 million in the General Project Plan and \$356.4 million in the Alternative Plan.

Lastly, the city and state will incur certain indirect or opportunity costs in connection with the project. The first indirect cost is the loss of real estate taxes paid on the existing lots at Atlantic Yards. To the extent that these existing businesses relocate to new sites in New York that are not currently utilized, some of this “lost” revenue will be recovered and

a classroom with a capacity of 25 students has only 18 students enrolled, then 7 students can be absorbed without adding a teacher. The estimate here is based on average cost and, therefore, is likely to overstate the actual incremental costs. The educational district for Atlantic Yards is presently at 60 percent of physical capacity and the five-year projections do not call for this to change. Hence, it does not seem that the Atlantic Yards development will necessitate the construction of any new school buildings. Of the \$11,000 incremental cost per pupil, only around \$4,000 of that is paid by the city; the rest is paid by the state and federal governments. Thus, by counting the entire \$11,000 as a cost to the city and state governments, I am overestimating the cost and underestimating the final fiscal benefit.

the following estimate of foregone tax revenues will be too high.

According to the valuation and uses of the existing Atlantic Yards lots, total property taxes paid in fiscal 2005 were \$1,105,285. Growing that sum at 2.5 percent annually and taking the present value yields an estimate of foregone tax revenue of \$21.9 million.

The next two sources of indirect cost are speculative. That is, they might or might not be experienced, depending on whether, how, how much of, and when the arena acreage would be developed as part of other projects if the arena were not built. My estimates below assume that, despite the very substantial infrastructural costs connected to relocating and covering the railyards, *inter alia*, this acreage would be fully developed on the proposed arena's timetable. This is the most conservative assumption I could possibly make. Under this assumption, there are two additional indirect public subsidies to the arena development and I add them both to the public costs of the project.

First, FCRC will not pay the city a ground rent for that part of the arena which will sit on city land (approximately 48,000 square feet). With a FAR of 3, this amounts to 144,000 square feet that, without a subsidy, would be subject to a ground rent of \$1.70 per square foot. Such a ground rent would generate \$244,800 in 2006. If the ground rent increases at a rate of 2.5 percent, the 2006 present value of this stream would be \$4.7 million.

Second, FCRC will pay no property tax on the improved value (the arena) on the land. Nonetheless, to be cautious, I add the foregone property taxes as a cost to the city, after taking account of the as-of-right ICIP tax abatement program that would apply to any commercial building project on the site. To estimate these taxes, I take the hard costs of the arena building, estimated at \$375 million, and apply a 12.5 percent tax rate in 2009. For each year thereafter, I depreciate the building at 3.33 percent so that the building is fully depreciated over the course of the 30-year lease. The same tax rate is applied to the adjusted value of the building in each year and the 2006 present value of this tax stream is \$24.6 million.

VIII. Net Fiscal Impact from the Atlantic Yards Project

The present value in 2006 of the estimated new tax revenues over a 30-year period to the city and state from the Atlantic Yards project is at least \$2.1264 billion.⁴⁴ The Alternative Plan reaches \$2.2637 billion. On the cost side, the present value of direct fiscal contributions is \$200

⁴⁴ This result is based on the assumption that 40 percent of the households in Atlantic Yards previously lived in New York State. If we assume that 50 percent previously lived in the state, the estimate falls to \$2.02 billion. If we assume that 60 percent previously lived in the state, the estimate becomes \$1.92 billion. At 30 percent, the estimate rises to \$2.23 billion.

million. The present value of the other operating costs associated with the project is estimated at \$321.4 million in the General Project Plan and \$356.4 million in the Alternative Plan, and the present value of the indirect costs is estimated at \$51.2 million in both plans. The estimated present value of all public sector costs, then, is \$572.6 million in the General Project Plan and \$607.6 million in the Alternative Plan.⁴⁵

By these estimates, there is a net positive fiscal impact with a present value of \$1.55 billion in the General Project Plan and of \$1.66 billion in the Alternative Project Plan. These are the base case estimates, and, as indicated above, do not include several sources of additional tax revenue to the city and state. Further, more fiscal revenues for the city and state will result in more government spending, which, in turn, will increase the level of economic activity and, consequently, lead to additional tax revenues. Even under the least favorable assumptions in my sensitivity analyses, then, the fiscal impact of the Atlantic Yards project is a significant plus for the New York City and New York State treasuries.

⁴⁵ Although the MOU refers to the possibility of additional optional contributions from the city and state, it seems unlikely that such payments would be made and, in any case, it would be entirely speculative to assign a dollar figure to them.

Appendix I

Spreadsheet Detailing Fiscal Impact of Nets and Arena

\$ in thousands	2008 Annuity	2006 NPV	Aggregate
ADMISSIONS SALES TAX			
Non-Premium Ticket Sales Tax	\$4,161	\$51,503	\$140,219
Premium Ticket Sales Tax	\$1,930	\$23,885	\$65,069
Suite Sales Tax	\$1,187	\$14,692	\$39,958
Total Admissions Sales Tax	\$6,740	\$90,080	\$245,246
CONCESSIONS SALES TAX			
Non-Premium Concessions Sales Tax	\$911	\$11,279	\$30,708
Premium Concessions Sales Tax	\$490	\$6,067	\$16,480
Total Concessions Sales Tax	\$1,298	\$17,346	\$47,188
NOVELTY SALES TAX			
Non-Premium Novelty Sales Tax	\$317	\$3,929	\$10,698
Premium Novelty Sales Tax	\$60	\$737	\$2,003
Total Novelty Sales Tax	\$349	\$4,666	\$12,700
TOTAL CITY & STATE SALES TAX	\$8,387	\$112,093	\$305,134
AFTER APPLICATION OF MULTIPLIER	\$12,580	\$168,139	\$457,702
NETS / DEVILS WAGE TAXES			
Player Salaries	\$9,108	\$112,731	\$331,057
GM, Coaches, and Scouts	\$1,462	\$18,095	\$53,140
Team Staff Salaries	\$1,089	\$13,475	\$36,688
Total Nets / Devils Wage Taxes	\$11,659	\$144,302	\$420,885
ARENA WAGE TAXES	\$603	\$7,459	\$20,308
TOTAL WAGE TAXES	\$12,261	\$151,761	\$441,192
AFTER APPLICATION OF MULTIPLIER	\$18,392	\$227,641	\$661,789
EVENT PARKING TAXES	\$ -	\$ -	\$ -
TOTAL CITY AND STATE TAXES GENERATED	\$30,972	\$395,780	\$1,119,490