

A BAD BET FOR NEW YORK

State officials are persisting with their problem-plagued effort to turn Aqueduct into a racino, but video slot machines won't be enough to save this dying racetrack; it's time to consider a better use for 192 acres of public land next to one of the nation's busiest airports



**OFF
THE CUF**

By Hugh O'Neill

IN THE LATEST STRANGE TWIST IN NEW YORK STATE'S LONG-RUNNING attempt to bring video slot machines to Aqueduct, the State Lottery Division last week disqualified two of the three companies that had been competing for the right to develop and operate 4,500 "video lottery terminals" (VLTs) at the Queens racetrack. With S.L. Green Realty Corporation and Penn National Gaming now out of the running, the only bidder left standing is Genting, a Malaysian gaming company. Between now and August 3, the Lottery Division will either recommend that the Governor and the Legislature accept Genting's proposal, or (once again) re-open the bidding process.

For Albany, any further delay in the selection of an operator for the Aqueduct "racino" would be painful. It could blow yet another hole in the state's 2010-2011 budget; the governor, the Assembly and the Senate have all been counting on the winning bidder's payment of an up-front licensing fee of at least \$300 million to help close a \$9 billion budget gap.

The New York Racing Association (NYRA) may need this deal even more than the state does. It desperately needs increased VLT revenues to subsidize its own money-losing operations. In May, NYRA needed a \$25 million emergency loan from the state to avoid canceling this year's summer racing season.

But as the governor and the Legislature consider whether to approve Genting's proposal or re-open the bidding, it seems reasonable to ask whether a declining racetrack and a few thousand slot machines are the best we can do with 192 acres of publicly-owned land located next to one of the nation's busiest airports. The question seems particularly apt considering how other cities in the U.S and elsewhere are using their airports—and the land around their airports—as focal points for a new wave of development.

It's not surprising that Albany officials are pursuing the racino proposal. The developer's upfront payment would help plug a gigantic budget deficit and the revenues from VLTs would finance improvements at New York racetracks and subsidize NYRA's money-losing operations. But from the beginning of this long process, state officials never seriously studied whether the idea of using video slot machines to prop up a dying race track make sense economically or whether racing and gambling is really still the best use for this massive site. The answers to both questions are almost certainly "no."

Racing has been a declining business at Aqueduct for a long time. Between 1990 and 2009, the number of racing days dropped from 162 to 117. During the same period, total attendance fell by 82 percent; and after adjusting for inflation, Aqueduct's "handle"—the total amount wagered on races at Aqueduct, including simulcast betting—also fell by 82 percent. In 2009, average daily attendance at Aqueduct was just 2,408, and the average daily handle just over \$1 million.

For the past ten years, the state's proposed remedy for Aqueduct's continuing decline has been to expand its gambling business through the addition of 4,500 video slot machines. The recent experience of Empire City—a gambling hall with 5,500 VLTs that opened at Yonkers Raceway in 2006—suggests that this strategy might in fact succeed in bringing a few thousand more people to Aqueduct each day, and creating a few hundred additional jobs.

But from an economic—and economic development—perspective, there are other options for Aqueduct that make far more sense.

The rise of the "airport city"

Since the 1990's, a growing number of cities around the world have begun to view both existing and new airports not just as transportation facilities but as nodes in an expanding network of global commerce. Local and national governments, airport authorities and private investors are betting that they can create development

districts adjoining major airports, and that companies and people engaged in global commerce—because they value easy access to the worldwide air transportation network—will find these districts attractive places to work, live and do business.

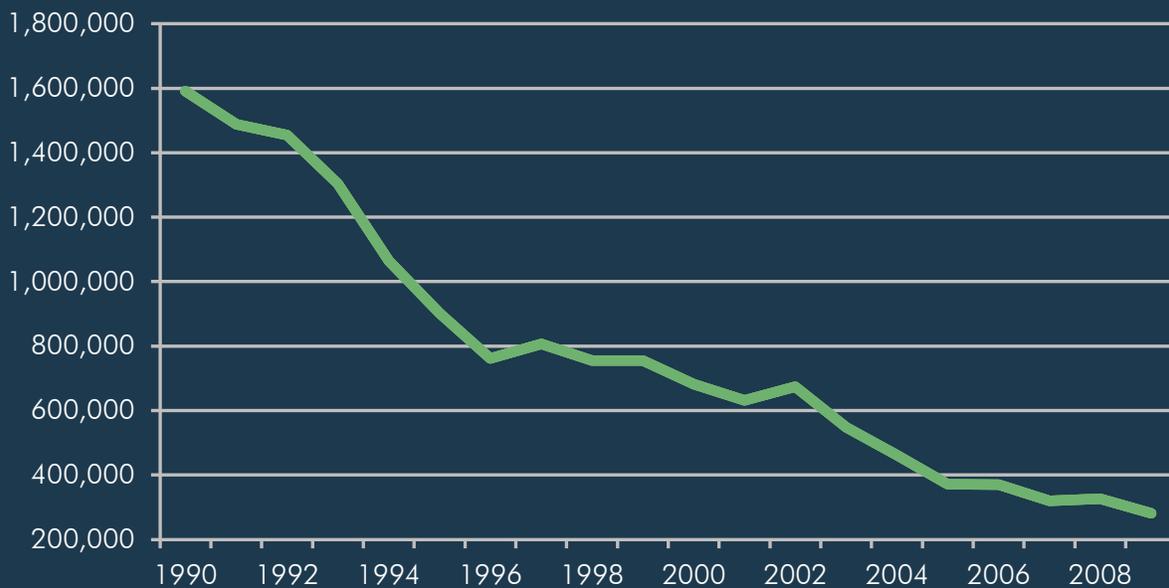
Amsterdam's Schiphol Airport began to develop an airport city nearly 20 years ago, before the concept even had a name. The Schiphol Group, which runs the airport, has its own development arm, Schiphol Real Estate. The company built the World Trade Center Schiphol, a 700,000 square-foot on-airport office complex which employs roughly 57,000 people at more than 540 companies. It is also developing another cluster of office buildings (with Microsoft as its first tenant) and has erected two office parks near the airport.

Frankfurt has developed several new office buildings immediately adjacent to its passenger terminals, and this year will complete construction of Airrail—a 1.5 million square-foot complex that includes 1 million square feet of office space, two hotels, and 63,000 square feet of stores and restaurants, all located above the railroad station that serves the airport. Frankfurt also has ambitious plans for development of several additional sites nearby.

In Hong Kong, a development called Sky City is rising next to Chek Lap Kok airport. On an even grander scale, China has plans for development of Beijing Capital Airport City—a massive mixed-use development that when completed is expected to have 400,000 residents. Thirty-three miles south of Seoul, a multinational team is developing a similar complex that will be nearly as large, called New Songdo City; the first phase of the project opened in August 2009.

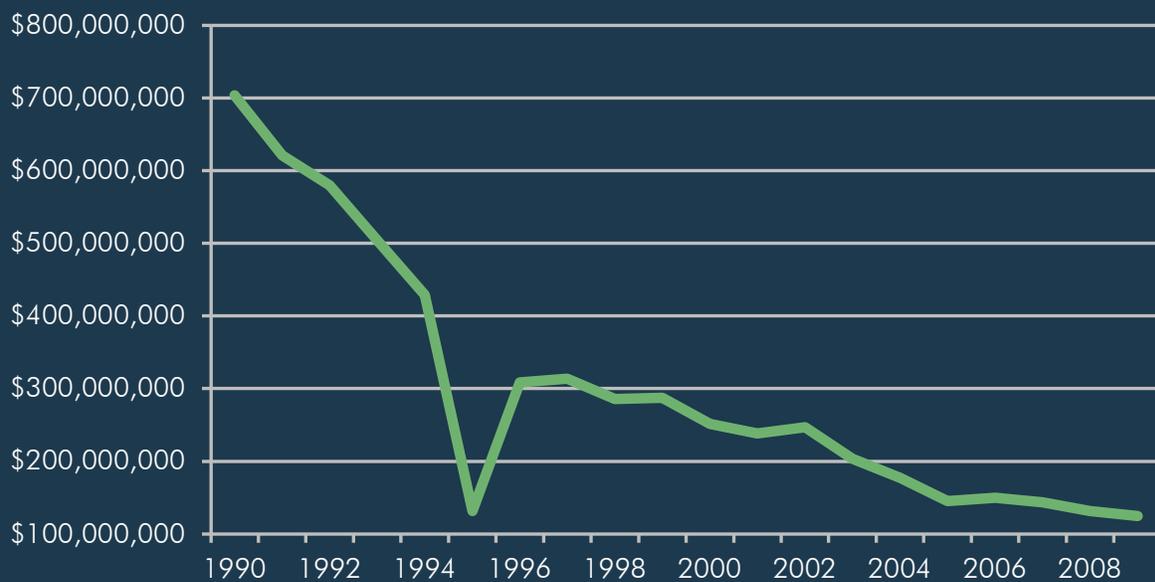
In the U.S., several major cities and airport authorities—including Dallas-Fort Worth and Denver—have focused on opportunities for large-scale commercial development on or near the airport. Portland is also planning a major new development adjacent to its airport. Even Detroit has begun to get into the act; Wayne County began several years ago to explore the feasibility of airport-related development around Detroit Metro

Aqueduct Annual Attendance, 1990 - 2009



Source: New York State Racing and Wagering Board

Aqueduct Annual Handle, 1990 - 2009 (\$ 2009)



Source: New York State Racing and Wagering Board



Airport and along I-94. The recession and the credit crunch in commercial real estate have put a lot of these plans on hold; but as the economy rebounds, airports are likely to emerge once again as focal points for new development.

What can New York do?

Of course, many of the places that are pursuing the vision of an “airport city” have something that New York plainly lacks—a large supply of available land around a major airport. But if advocates of this concept are right—if easy access to airports that offer high levels of worldwide connectivity is an increasingly important source of competitive advantage—then that is all the more reason for New York to be especially concerned

about the fate of every piece of potentially developable land on, adjacent to or near Kennedy Airport.

The Bloomberg administration has already sought to realize some of the potential for airport-related development, through its rezoning of the area around the Jamaica AirTrain station and its efforts to promote commercial office development in this area. The city should certainly continue to focus on Jamaica. But in the long run, the Aqueduct site might offer even greater potential.

With a total of 192 acres, its own A-train station, and the potential for easy access to the airport, the Aqueduct site could easily support millions of square feet of low- to medium-density development (such as office buildings, distribution facilities, hotels or a conference

center) and still have plenty of room left for community uses—open space, recreational facilities and other public uses.

So what should New York do? Here's a suggestion: Cancel the latest round of bidding on the proposed Aqueduct racino. Then convene a working group with representatives from the state, the city, the Port Authority, the Queens borough president's office and the local community to look carefully at all of the options for the future of Aqueduct, and come back with recommendations on what makes most sense in the long run for the state, the city and the community. The group could draw on the experience of some of New York's leading planning and design firms—Skidmore Owings & Merrill, for example, prepared the master plan for Hong Kong's Sky City development, and Kohn Pedersen Fox did the same for New Songdo City in Korea.

(The Port Authority has a critical role in this discussion because, in addition to being responsible for ongoing operations and future development at JFK, it already owns part of the Aqueduct site. In 1992, at the behest of then-Governor Cuomo, the Authority paid the New York Racing Association \$40 million for a 23-acre

portion of the property; NYRA then passed the money through to the state. As part of that deal, it also gained a right of first refusal on any sale of the remainder of the property, and a voice in determining what uses would be permitted in any future development of the site. In 2005 the Port Authority bought some additional acreage for \$5 million.)

Ending Aqueduct's 113-year history as a racetrack need not be a blow to NYRA or to New York's thoroughbred racing industry. Belmont—a larger and better facility—is just a few miles away, and is active only 92 days a year. Consolidating NYRA's fall, winter and spring meets at one superior location seems, from an outsider's perspective, to make eminent good sense. Part of the deal could be to provide funding that would allow NYRA to finance the improvements that would be needed at Belmont to support an expanded season.

In the end, it's conceivable that the city, the state and the community would decide that a combination of part-time horse-racing and full-time video slots is in fact the best use of the Aqueduct property. But I'd be willing to bet otherwise.

Off the CUF commentaries are published periodically by the Center for an Urban Future. Alternatively written by outside experts and CUF staff, the commentaries aim to highlight critical opportunities and challenges facing New York and other cities, and generate fresh ideas for policymakers, business leaders and nonprofit practitioners.

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