

**Testimony by James A. Parrott, Ph.D.
Deputy Director and Chief Economist
Fiscal Policy Institute**

Hearing before the New York City Industrial Development Agency

**Proposal to Amend the Uniform Tax Exemption Policy for
Hudson Yards Commercial Construction Projects**

**New York City
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Good morning. My name is James Parrott and I am the Deputy Director and Chief Economist of the Fiscal Policy Institute. The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. I served as the City's chief economist for economic development in the early 1990s and have studied state and local economic development and New York City tax policy for 20 years. Thank you for the opportunity to present FPI's views on this topic.

We agree with the need for the redevelopment of the Hudson Yards district in order to expand the productive capacity of New York City, and agree with the proposition that making appropriate public investments in infrastructure that support economic development and job creation certainly is warranted.

With the proposed Hudson Yards UTEP, the IDA will be setting in stone an aggressive program of commercial property tax breaks for decades to come. Shortly after the IDA vote, the City's Hudson Yards Infrastructure Corporation plans to start selling \$3 billion in long-term debt that will be inextricably tied to the Hudson Yards tax breaks.

Tax breaks offered by the City for economic development purposes already are growing by leaps and bounds. Table 1 attached to my testimony shows that the value of property tax breaks awarded in New York City for economic development purposes has grown by nearly 55% since 2000 and is now \$765 million annually. Table 1 also shows that the City's main economic development tax incentive program -- the Industrial and Commercial Incentive Program -- accounts for nearly one-half of all such tax benefits and has grown by over 150% since 2000. If the IDA Board approves the Hudson Yards UTEP as proposed, it will be creating another tax break program the size of ICIP. I urge the IDA Board to carefully consider this proposal.

This is a far-reaching and complicated proposal. In the interest of brevity, I want to make three key points:

- (1) **No compelling economic rationale.** In my belief, the IDA does *not* make a compelling case that there is an economic rationale for across-the-board tax breaks that are needed to spur commercial development in the Hudson Yards area. According to the Principles of General Application for the IDA's current Uniform Tax Exemption Policy, for the IDA to provide financial assistance in the form of tax breaks to projects it "must determine that the Financial Assistance which is proposed to be provided to a Recipient will 'induce' the Recipient's Project. ... 'Inducement' means that *but for* the Financial Assistance being offered by the Agency, the Project would not be undertaken by the proposed Recipient." An up-to-date and well-argued real estate market analysis has not been presented that establishes the need for the city to today, in 2006, well in advance of development, commit to provide significant property tax breaks to commercial development over a period of several years. The Hudson Yards UTEP provides across the board incentives for all of the office development planned by the City in an area where major office development is not expected to occur for at least 5 or 6 years.
- (2) **The Hudson Yards UTEP is really about financing.** Since a clear case for "inducement" now in 2006 has not been made, the conclusion is inescapable that the Hudson Yards UTEP is being acted on now mainly because of the financing need, and not for inducement purposes. I think this represents a perversion of the IDA's purpose and authority. The City wants to move forward now with the off-budget financing for infrastructure improvements in the Hudson Yards area and is counting on a substantial amount of PILOT payments to secure that borrowing. That is the main reason why this UTEP amendment is before the IDA at this point.
- (3) **Balance real estate focus with actions and resources to improve the labor market.** In my opinion, the City and the IDA need to re-think the city's economic development strategy. An awful lot of emphasis, and a tremendous amount of City financial resources, go toward providing tax breaks connected to real estate development. The City's number one economic development goal should be to provide quality jobs and economic opportunities for New York City residents. The City needs to start using its considerable economic development leverage to focus on the human capital investments and inducements needed to raise wages and provide better career opportunities for all New Yorkers. If the Hudson Yards UTEP is approved as proposed, the City and the IDA should consider how it can link the Hudson Yards tax breaks to strategies and programs to establish wage standards and workforce investment commitments.

It is just not clear why the City needs to offer property tax breaks to spur commercial development in the Hudson Yards area. The City has already up-zoned the area for intensive high-rise commercial and residential development and is committed to funding the extension of the #7 subway line to serve the western portion of the district. It seems particularly hard to justify committing to a policy of property tax cuts several years in advance of market conditions, and inconsistent with committing billions of dollars of public infrastructure investment. The commitment of tax breaks years in advance is a second layer of public investment. In the absence of knowing the market conditions, it seems unwarranted to be discounting property taxes

and dubious to link discounting property taxes to repaying the debt incurred to make the infrastructure investment.

If the demand for office space is insufficient, the City should not be subsidizing the infrastructure. If there is sufficient demand for office space, there will not be a need to directly subsidize developers to create office space. Many, many times I have heard the argument from officials that the City needs to provide the Hudson Yards tax breaks because the City has subsidized every other office building in Manhattan for decades. I don't think that is true and in any case, things are different with Hudson Yards since the City is making a huge and impressive infrastructure investment and has developed a forward-looking comprehensive redevelopment plan. In addition, the expansion of the Javits Convention Center and construction of a convention hotel to the west is now underway and it looks like the development of the Moynihan Train Station will get underway soon and further buttress prospects for Hudson Yards.

In 2000 and early 2001, Senator Schumer was the driving force behind the Group of 35 that issued a report arguing that the City needed to be more forward-thinking and develop new areas for office market expansion in New York City. Last summer, Senator Schumer gave a speech before the Partnership for the City of New York in which he said:

"I do not believe we need to give developers tax breaks -- the reduced PILOTs -- to get them to the West Side. That money should be used for the building of the #7 line if needed. There is already growing developer interest in the area and I see no evidence that reductions in PILOT payments -- "de facto tax breaks at the City's expense" are needed. Traditionally in this City, infrastructure alone is sufficient to induce development. ... As far as I am concerned, the #7 line IS the subsidy for that development and West Side developers should pay "full fare".

I think Senator Schumer has this exactly right.

Whether or not you agree with the Senator, the IDA must ask itself if a case has been made that high-rise office buildings won't go up in the Hudson Yards area if tax breaks are not offered. Frankly, since it will take a few years to build the #7 and real estate market conditions can change significantly over relatively short periods of time, it is extremely difficult, if not impossible, to say that now, in 2006, that incentives are needed to spur construction 5, 6 or 15 or 20 years from now. The City says it may offer sales tax breaks for construction of office buildings in Hudson Yards, but it doesn't spell that out now because that construction is still a few years off and it otherwise doesn't have to. If the property tax breaks are de-linked from the financing of the infrastructure, the City and the IDA wouldn't have to be deciding to provide property tax breaks now either.

The City had, but apparently never really explored, other options if it felt it really needed, in addition to making substantial infrastructure investments, to induce the owners of re-zoned land on the west side to either develop their sites or sell them to others for development. The City could have sought State authority to have a split commercial property tax roll in the Hudson

Yards area and taxed undeveloped land to the point of providing a clear disincentive to land owners to under-utilize their property.

The only justification the City has provided for the Hudson Yards tax breaks is in connection with its financing approach. Some people have referred to the Hudson Yards infrastructure financing as, effectively, tax increment financing. I don't think this is the case. Tax increment financing uses taxes generated in connection with a given project development to repay project-related capital investments. Tax increment financing is usually based on full taxation, not discounted taxation as in the case of the Hudson Yards UTEP. State legislation to allow IDAs to do tax increment financing was introduced but did not pass this year.

I expect the IDA will approve the proposed Hudson Yards UTEP, and that the City's plan on financing Hudson Yards infrastructure will proceed as planned. I think it is appropriate to suggest that attention now be turned, in the Hudson Yards, and more broadly in connection with all City economic development undertakings, to how to better balance the City's real estate focus with a commitment and resources to improve the functioning of the labor market in this city so that it provides better wages, benefits and opportunities to workers who have not been faring that well in the labor market in recent years. When you look at the Mayor's Budget and the Annual Tax Expenditure Report and add up all the tax subsidies that New York City provides for economic development purposes, you get a total annual expenditure in the range of \$1.8 billion to \$2 billion. How much does the City spend on workforce development and efforts to raise the wages of low-wage workers? We don't know for sure, but our best guess is that the amount of City tax levy dollars spent in this area is well under \$100 million.

The time has come for the City to get serious about re-constructing the low end of the city's labor market. Briefly, the city needs to take actions to establish a more effective floor under the labor market through wage and benefit standards, and build on some promising initial steps taken by the Department of Small Business Services through its customized job training program to construct career ladders and pathways for workers to acquire better skills and achieve better wages. The City and the IDA should consider using workforce development resource commitments from Hudson Yards office developers to fund workforce development investments within and beyond Hudson Yards.

The City needs to allocate some significant portion of its current economic development resources to this workforce development and investment need. The Mayor and Council should also consider dedicating to worker investments existing economic development PILOT revenues and some future PILOT revenues, such as the sales tax PILOTs that likely will be given in connection with the construction of Hudson Yards office buildings. Among other things, by raising wages at the low end of the labor market and improving economic opportunities, the city would be making tangible progress toward reducing poverty, an objective the Mayor endorsed when he established the Commission on Economic Opportunity.

Thank you for this opportunity to share our views on this matter.

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Table 1: Value of Real Property Tax Breaks Awarded in
New York City for Economic Development Purposes,
FY 1995-2005 (\$millions)

fiscal year	Ind. & Comm. Incentive Program	Industrial Development Agency	Economic Development Corporation	State Urban Development Corporation	Other *	TOTAL	% change from prior year
1995	\$107.1	\$52.6	\$4.3	\$78.3	\$204.3	\$446.6	
1996	\$105.7	\$48.5	\$3.7	\$77.0	\$185.0	\$419.9	-6.0%
1997	\$99.3	\$47.2	\$3.4	\$76.9	\$162.3	\$389.1	-7.3%
1998	\$111.9	\$47.8	\$4.1	\$80.0	\$149.8	\$393.6	1.2%
1999	\$132.5	\$61.5	\$7.4	\$84.5	\$158.2	\$444.1	12.8%
2000	\$144.6	\$84.5	\$3.8	\$101.0	\$161.0	\$494.9	11.4%
2001	\$177.7	\$66.0	\$3.9	\$107.6	\$171.9	\$527.1	6.5%
2002	\$193.4	\$66.6	\$7.1	\$113.1	\$113.2	\$493.4	-6.4%
2003	\$249.2	\$62.8	\$11.5	\$141.1	\$122.2	\$586.8	18.9%
2004	\$315.4	\$82.2	\$12.8	\$165.2	\$62.8	\$638.4	8.8%
2005	\$371.8	\$101.5	\$10.9	\$169.9	\$111.4	\$765.5	19.9%
1995-2000	35.0%	60.6%	-11.6%	29.0%	-21.2%	10.8%	
2000-2005	157.1%	20.1%	186.8%	68.2%	-30.8%	54.7%	

* Other includes Battery Park City Authority, World Trade Center, Teleport, Madison Square Garden and the Commercial Revitalization and Expansion Program.

source: FY 2007 City of New York, Mayor's Executive Budget, p. 35 (and FY 2006 Executive Budget for 1995).

Please note that the above table pertains only to real property tax breaks for economic development. In addition, according to the Annual Tax Expenditure Reports, the city provides various business income, sales and mortgage recording tax breaks for economic development purposes. For FY 2005, all City tax breaks for economic development purposes total \$1.8 billion - \$2.0 billion.

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