The Problem with Hudson Yards Property Tax Breaks

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Tremendous public attention has been focused on the explicit and implicit city and state public subsidies in connection with the proposed West Side Stadium. Of potentially greater long-term fiscal impact to the city, however, is the city's proposal to provide property tax breaks to commercial office development in the Hudson Yards Redevelopment area. The property tax breaks, whose value could easily run into the hundreds of millions, are being proposed in connection with the financing for the Hudson Yards Infrastructure Corporation (HYIC). The HYIC is the city-created entity that will borrow $3 billion to finance the construction of the #7 line extension, the mid-block boulevard between 10th and 11th Avenues, and parks and other physical amenities on the Far West Side.

Initially, Mayor Bloomberg had tried to maintain a fiction that the Hudson Yards project was "self-financing", i.e., that it would not come at the expense of the city budget, that the massive borrowing by the HYIC would not in any way jeopardize the city's credit standing, and that revenues generated by the project, e.g., through the sale of development bonuses and from PILOT payments received from commercial developers would be more than sufficient to repay the sizable up-front public investment. The PILOT mechanism built in substantial property tax subsidies to office building developers and promised to insulate them from property tax rate increases.

The PILOT arrangement was needed, it was argued, to provide a revenue stream negotiated by the city's economic development corporation outside of the city budget process that could be dedicated to debt repayment.

In its January 2005 agreement with the Mayor to modify the HYIC financing, the City Council significantly increased the amount of affordable housing and agreed to the use of $1B from the city operating budget as a way to keep down the overall borrowing costs. The project is now clearly not "self-financing". The Council's financing resolution did not address the issue of the PILOT mechanism or whether property tax breaks would be provided to commercial developments.

However, several Hudson Yards documents from the City have described the City's intent to provide steep property tax subsidies to developers of commercial sites. The City's Industrial Development Agency (IDA) had been scheduled to vote on a Uniform Tax Exemption Policy at its June 9, 2005, meeting to authorize property tax breaks for commercial office development in the Hudson Yards area. In late May, that vote was delayed indefinitely. At this point in mid-June, it is not clear if the City plans to proceed with the construction of the # 7 subway line. If it does, the Hudson Yards Infrastructure Corporation could be the entity that will borrow the funds needed, and in that case, the IDA may then adopt a tax policy that will include property tax breaks on the Far West Side.

For a project that entails the construction of 24 million square feet of office space, building in property tax breaks from the start will permanently institutionalize property tax breaks for Manhattan commercial projects. This would likely seriously compromise the city's property tax base. Homeowners and other commercial property owners would then be forced to bear the property tax burden that will be lessened for office buildings on the West Side. The redevelopment of Lower Manhattan may be affected by the provision of substantial property tax breaks on the West Side.

The property tax is by far the largest New York City tax and supplies nearly half of all city tax revenues. The city would be far better off dropping the PILOT provision and instead making new office developers pay taxes on the full value of their property. The financing plan approved by the Council already permits the use of general tax revenues to pay the debt service on HYIC debt. Dropping the commercial property tax subsidies would prevent the erosion of the property tax base and could help wean Manhattan developers from an excessive reliance on public subsidies. At a minimum, the IDA should not authorize property tax breaks for West Side office towers and the bond documents that accompany the sale of HYIC debt (which could occur as early as this spring) should not make reference to a subsidy-based PILOT mechanism for commercial properties. As the elected officials controlling the HYIC, the Mayor, the City Council Speaker and the City Comptroller should assure taxpayers now that commercial developers on the future West Side will pay their own way.