Report of the New York City Council Task Force on Economic Development Tax Expenditures

Testimony Presented to the New York City Council
Finance Committee, Julissa Ferreras-Copeland, Chair

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I congratulate Chair Ferreras-Copeland on her exemplary leadership of the Task Force during our deliberations these past several months. We covered a lot of ground and had several vigorous discussions, generally producing much more light than heat. The staff is also to be congratulated for their superb effort and assistance, and I want to thank all of my colleagues on the Task Force, and the various City observers who generously lent their considerable expertise.

As the Task Force Report notes, the City and the Council in particular, needs to improve its oversight of the $2.8 billion in annual economic development tax expenditures. These tax expenditures effectively represent taxpayer resources just as the tax-levy budget dollars do over which the Council closely deliberates each budget season. Unnecessary business tax incentives distort the tax system and since large companies tend to disproportionately benefit, their continuation reinforces cynicism toward city government among smaller businesses.

Task Force discussions noted that the City has a hodgepodge of tax expenditures that have evolved over the last four decades, and that they need to be systematically re-examined. There is significant opportunity cost in the status quo. Evaluation should be done in terms of current economic conditions and needs and with a clearly articulated set of City economic development goals and objectives in mind, and informed by public hearings.

The evaluation methodology discussed in the Task Force Report is a workable method, and the legislation lays the basis for a regular program of such evaluations. One suggestion I would make would be to modify the definition of "economic development tax expenditure" used in the legislation. I would suggest, ***"The term 'economic development tax expenditure' shall include, but not be limited to any exclusion, exemption, abatement, credit or other benefit allowed against tax liability that is intended to induce behavior directly related to producing jobs or business income."***

Our discussions in the Task Force also lead me to suggest certain improvements in the City's Annual Tax Expenditure Report prepared by the City's Finance Department.

- The tax expenditure report should compile in one table all economic development related tax expenditures as the Task Force Report does in Appendix II;

- It should also provide greater and more revealing detail on the tax breaks authorized by the City's Industrial Development Agency (IDA) and Economic Development Corporation; and
- The Tax Expenditure Report should also identify and report company-specific tax expenditure beneficiaries in cases where companies receive tax benefits exceeding, in the aggregate, some threshold amount, such as $5 million in any given year.[1]

The Fiscal Policy Institute was pleased to join the Partnership for New York City in supporting company-specific, deal-specific public disclosure in our respective comments to the Governmental Accounting Standards Board (GASB) regarding GASB's Proposed Statement on Tax Abatement Disclosures.[2]

We had more than one discussion in Task Force meetings about the Hudson Yards property tax breaks authorized by the New York City IDA in 2005 at the time of the re-zoning and the establishment of the Hudson Yards Infrastructure Corporation to finance the expansion of the #7 subway line. I think the public has a right to know what those tax breaks are costing the City, and how much that cost will rise in the years and decades ahead. I am not aware that any City entity, whether it's the Council staff, the Finance Department, the City Comptroller or the Independent Budget Office, has prepared such estimates.

I am reminded that when in the fall of 2014 J.P. Morgan Chase sought $1 billion in subsidies to build a new headquarters in Hudson Yards, the City responded that the Hudson Yards property tax breaks already in place would provide a total of $600 million in reduced taxes from the discount scheme put in place in 2005.[3] I urge the Council to convene a hearing on the rising cost of the Hudson Yards tax breaks and explore whether they are justified.

For far too long, there has been a culture of entitlement among large corporations and real estate developers when it comes to local tax breaks supposedly granted to spur the local economy. For nearly two decades, New York City has boasted one of the most vibrant local economies anywhere in the world. Our highly valued real estate reflects that economic vibrancy.

New York City has many pressing economic needs that would be much better served if the City collected the full value of property and other taxes that should be generated in our highly productive economy. Over the past dozen years, the annual value of business tax breaks the City provides has nearly tripled, increasing much faster than the City's overall tax base. The time is long past when the City should turn the corner on such an ill-advised approach.

Thank you for the opportunity to testify today.

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[1] I don't think Donald Trump is alone as a NYC real estate developer who has received New York City property tax breaks running into the hundreds of millions of dollars. See Charles V. Bagli, "A Trump Empire Build on Inside Connections and $885 Million in Tax Breaks," New York Times, September 17, 2016. http://www.nytimes.com/2016/09/18/nyregion/donald-trump-tax-breaks-real-estate.html?_r=0

[2] Comments on GASB Project No. 19-20E, Kathryn Wylde, Partnership for New York City, January 30, 2015; and James Parrott, Fiscal Policy Institute, January 30, 2015.

[3] Charles V. Bagli, "JPMorgan Chase Drops Plan to Build 2 West Side Towers, New York Times, October 28, 2014. http://www.nytimes.com/2014/10/29/nyregion/jpmorgan-chase-drops-plan-to-build-2-west-side-towers.html