New York Daily News - http://www.nydailynews.com

West Side pyramid scheme
By JAMES A. PARROTT
Wednesday, January 19, 2005

The recent agreement between Mayor Bloomberg and the City Council on how to pay for development of the far West Side did not fix the plan's most serious problems. Yes, it separated out the proposed Jets stadium and added more affordable housing. And yes, it reduced borrowing costs, although only at the expense of a billion dollars from the city budget for services and schools over the next decade.

But the West Side financing plan still could backfire on taxpayers and blow a hole in the property tax base. Here's why:

Bloomberg says we have to invest big to make money. If we foot the bill for a subway extension, a grand boulevard and parks, office towers will sprout and workers will be hired at hefty salaries, because developers will be willing to pay top dollar for those Hudson River views and access to the mass transit and public amenities. Then the tax dollars will roll in, right?

Wrong, because the city's plan includes massive tax breaks for the developers. The Donald Trumps of the future not only won't have to pay their fair share of property taxes, but will be given a 30-year guarantee against property tax rate increases.

That will force homeowners and other landlords to shoulder part of the developers' burden.

If you add up all the tax breaks the city provides to businesses, like the $10 million subsidy to Madison Square Garden, the annual total is about $1.3billion. That's more than the city spends on mass transit, parks, youth programs, libraries and the arts. The value of the West Side property tax breaks could easily exceed another $1.3 billion long before taxpayers see any return on their investment.

Investing billions in the office district of the future and then discounting property taxes from Day One is a financing foundation built on sand, not Manhattan bedrock. And if the demand for office space falls short of projections, which can't be ruled out, the city might have to subsidize office tenants as well.

The city is proposing to repay the borrowed billions with payments in lieu of property taxes collected from the developers. Perversely, this plan could make the city the victim of its own pyramid scheme: It might have to offer steeper tax breaks for new developments to avert default on its West Side bonds. Meanwhile, these cut-rate tax deals will deprive the budget of revenues to keep schools open and streets safe and clean.

Strange, because Bloomberg didn't make his billions by developing a premium product and then giving it away.

We should rezone the West Side for new mixed-use development and be willing to invest to make it work. But we should make the beneficiaries pay their fair share in taxes so that we can more quickly pay off what we borrowed and so that we don't develop the West Side by undeveloping other parts of the city.

The plan's potential to rip a gigantic hole in the public purse can be avoided by dropping those massive property tax breaks for developers.

Parrott is the deputy director of the Fiscal Policy Institute.