



City Council Committee on Finance
Hearing

New York City Department of Finance

Testimony of Karen Schlain
Associate Commissioner, Tax Policy

September 22, 2016

Good afternoon, Chairwoman Ferreras-Copeland and members of the Committee on Finance. I am Karen Schlain, Associate Commissioner for Tax Policy at the NYC Department of Finance (DOF). Thank you for the opportunity to testify about the tax expenditure evaluation.

Finance has legal constraints on our ability to release information from any specific business income tax returns. Under State law, we could not give IBO any information located on a specific General Corporation Tax, Unincorporated Business Tax, or Corporation Tax return. However, we can and do provide IBO information on specific hotel tax and commercial rent tax returns (stripped of identifiers) because they are subject to different tax secrecy rules.

We understand that IBO may also request RPIE data for this exercise. However, under current law, Finance is prohibited from releasing any information from specific RPIE statements to IBO.

Also, we would need to address concerns regarding the release of data, including its storage, access, and disposal. For instance, where will the data be stored? Who will be allowed access and how will the individuals be trained regarding data security? Will there be an audit trail regarding data access? We do understand that IBO must comply with DOITT's Citywide Policies and Procedures to protect confidential documents/data electronically.

I'm happy to take any questions you may have.



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Testimony of George Sweeting
Deputy Director, New York City Independent Budget Office
To the New York City Council Finance Committee
On Evaluating Economic Development Tax Expenditures
September 22, 2016

Good afternoon Chair Ferreras-Copeland and members of the Finance Committee. I am George Sweeting, deputy director of the Independent Budget Office. I am joined by IBO's general counsel, Lisa Neary. Thank you for the opportunity to testify before you regarding this important legislation.

The legislation before you today builds on the recommendations of a task force made up of New Yorkers with deep experience in economic development policy—IBO was a formal observer at the task force meetings. I would like to take this opportunity to compliment the Chair, the Council Finance staff and the members of the task force for their work over the last year and a half to review the current status of tax expenditure oversight and to develop recommendations to create a new structure for on-going evaluation of the city's economic development tax expenditures. A regular review of these programs to test whether the goals of the programs are still being met, whether the goals are still relevant, and determining what is the cost of meeting those goals, will provide policymakers with critical information when determining whether to extend existing programs or create new ones.

IBO Director Ronnie Lowenstein and the rest of us at IBO are greatly appreciative of the confidence in the quality and independence of our work demonstrated by the decision to propose that our office take on the role of economic development tax expenditure evaluator. It would bring interesting analytic challenges and the opportunity to contribute to the Council's important oversight role.

IBO has worked with Council staff in drafting the language regarding the additional responsibilities IBO would assume under the proposed legislation. Providing independent, nonpartisan fiscal and economic analysis is the core of what IBO does. Staff from IBO and the Council have worked out a collaborative process that is spelled out in the legislation to identify the economic development tax expenditures to be evaluated each year, the schedule for the evaluations, and the criteria that will be used in the evaluations, in a way that respects IBO's independence in setting its overall research agenda and priorities.

To do these evaluations well requires access to tax and other city data, ideally at the individual taxpayer level. While IBO currently receives some taxpayer data under existing law, including property tax, commercial rent tax, and hotel tax, as well as employment data, access to business income tax and sales tax data remains elusive. Language has been added to the bill that strengthens IBO's existing authority

under the City Charter to access tax data but even if the de Blasio Administration is fully cooperative, it will probably be necessary to seek state legislation to fully resolve the tax data issue.

As this will be on-going work, IBO will need to ensure that resources will be available in the future as we make commitments of staff and other support to carry out this work. Our concern is motivated by the need to ensure that IBO can continue to fulfill its City Charter mandates to provide budget reports, information, and fiscal analysis to various elected officials and the public, while also taking on this new responsibility.

The current plan would be to hire one senior researcher to direct the evaluation work supplemented with existing IBO staff and support. It was noted during the task force meetings that the quality and utility of tax expenditure evaluations is likely to take time to develop, with improvement coming through practice. Thus, stability and continuity in staffing are important to the success of the effort.

As I indicated earlier, we are excited by the prospect of taking on the new role of evaluating economic development tax expenditures in support of the Council's oversight responsibilities.

Once again, thank for the opportunity to testify and I would be happy to answer any questions you may have.

New York City Economic Development Corporation
New York City Council Hearing:
Review and Evaluation of Economic Development Tax Expenditure
Jeffrey Lee, Senior Vice President - New York City Economic Development
Corporation
September 22, 2014

Good afternoon Chair Ferreras-Copeland and members of the Committee on Finance. My name is Jeffrey Lee, and I am a Senior Vice President of the Strategic Investments Group at New York City Economic Development Corporation (NYCEDC). I am pleased to be here along with some of my colleagues to discuss Introduction T2016-4967, which would require the Independent Budget Office to review and evaluate economic development tax expenditures. After my remarks, I will be happy to take questions.

I'll begin by giving you a brief overview of NYCIDA and Build NYC.

NYCIDA

NYCIDA is a public benefit corporation formed under state law in the 1970s. It is administered by NYCEDC employees but has a separate legal existence and an independent board.

The mission of NYCIDA is to encourage economic development throughout the five boroughs and to preserve existing jobs and to create and attract new, quality, well-paying ones. NYCIDA programs provide companies with tax benefits that enable the businesses to purchase real estate, construct or renovate facilities, and acquire equipment. All applicants must satisfy eligibility requirements and demonstrate a need for assistance.

NYCIDA supports a wide range of projects across the five boroughs – from supermarkets servicing underserved areas in the Bronx, to logistics and air freight companies at JFK Airport, to office developers in the Hudson Yards area. Across sectors and building typologies, NYCIDA can help companies invest in growth, build capacity, and capture market share.

Build NYC Resource Corporation (Build NYC)

Besides, NYCIDA, NYCEDC also administers Build NYC Resource Corporation (Build NYC). Build NYC was formed in late 2011 at the direction of the City of New York. It was organized to create a financing vehicle that would give nonprofit organizations and other eligible borrowers access to tax exempt bond financing. Its administration and application process is similar to that of NYCIDA. Build NYC serves a wide variety of borrowers, including many nonprofit organizations such as cultural institutions and small, community based organizations providing vital services and creating local jobs.

Since NYCIDA's core business function is to provide discretionary tax benefits, our testimony today will focus on the NYCIDA and its processes.

NYCIDA Success Stories

One the key focuses of the de Blasio administration has been retaining and attracting small and medium size businesses in neighborhoods across the boroughs – which in turn create good jobs. And we do this in a rigorous, process-oriented way that is consistent with our role as a steward of public tax dollars -- a role we take very seriously as part of the administration of incentive programs under NYCIDA.

NYCIDA utilizes incentives to foster equitable growth in the outer boroughs while simultaneously encouraging practices that contribute to a sustainable economy, such as good employment practices and investment in workforce development. Later in my testimony I will touch upon how these criteria are integrated into the IDA's selection and vetting process.

To give you a feel of the impact of the work done by the IDA in helping NYC companies grow and scale, I want to share just a few examples of recent projects:

- Cubit Power is an MWBE-owned father-and- son team that we are helping to build their “green” manufacturing and electrical generating facility in Staten Island, a project that will create 19 jobs while also creating a localized electrical microgrid, which helps the overall redundancy of the city's power delivery systems.
- Gotham Seafood is a New York corporation that prepares and distributes fresh and frozen seafood. We are helping them expand and move their operation to 12,600 square foot facility to just north of the Hunts Point neighborhood of the

Bronx, building on our investments in the South Bronx as a hub for our city's food distribution industry.

- Picture Car Specialist provides New York's iconic media and entertainment industry with customized and fabricated vehicles and other automotive rolling stock items. We are helping them acquire a new location in the Ridgewood section of Queens, a project that will create approximately 16 new jobs.

These companies and many more like them across the outer boroughs face increasing pressure from rising real estate prices and high costs of construction, compared to their competitors in other jurisdictions. If a company can demonstrate that it needs IDA incentives in order to expand its factory floor or buy a larger distribution facility, and without these incentives it would have to scale back, and not grow their capacity and add jobs, then we at the IDA want to assist them. We require all companies to demonstrate that IDA benefits are necessary and will provide good returns on investment, including by creating quality new jobs.

Types of IDA Benefits

To incentivize companies to make significant capital investments in industrial facilities, the NYCIDA can provide three kinds of tax incentives to businesses: real estate tax benefits, sales tax benefits, and mortgage recording tax benefits. These tax benefits were designed to reduce companies' transactional costs and operating expenses, helping them to move forward on building new facilities, purchasing new equipment, and renovating and upgrading to remain competitive in today's economy.

There are other state authorized incentives that are available to New York companies, such as Relocation Employment Assistance Program, Commercial Expansion Program, or Commercial Revitalization Program. Most of these are administered the Department of Finance, *not* by NYCEDC or NYCIDA, For example, Industrial and Commercial Abatement Program (ICAP), a program which provides real estate tax abatement for commercial or industrial projects, is one of these incentive programs administered by NYCDOF.

Eligibility, Evaluations and Vetting

How does a company go about securing benefits through NYCIDA? The application process is fairly straightforward for the company, but we at the NYCIDA then undertake a comprehensive and thorough due diligence process. Applicants must submit a basic, 7-page application, as well as other background materials. Our Economic Research and Analysis group helps analyze the economic benefits, and our staff vets projects and performs diligence to assess whether the project is creating quality jobs – paying a living wage, providing paid sick leave and healthcare benefits. If the company’s application satisfies these requirements, the proposals are subject to a public hearing before being presented to our board of directors at any one of our 11 board meetings convened over the course of the year. We now webcast those hearings and make transcripts available on NYCIDA’s website.

Companies seeking discretionary tax incentives from NYCIDA must demonstrate the following basic requirements:

- The need for benefits for the project to go forward as proposed
 - Substantial capital investment, together with retention and growth of employment as a result of the project
 - Substantial increase in tax revenues to the City or other public benefits as a result of the proposed project
 - Applicant's ability to pay for proposed project and to obtain financing commitments from third-party sources
 - Positive fiscal impact coming from increased tax revenue to the city
 - Numbers of jobs created and jobs retained
- Besides typical quantitative measurements of the impact of a project, we also take a hard look at the following selection criteria:
 - Eligibility of project and applicant under applicable laws and regulations: Uniform Tax Exemption Policy
 - Alignment with EDC's five borough economic development strategy
 - Ability to comply with Living Wage (it is important to note here that with the 2014 Executive Order all projects that receive benefits in excess of \$1 million dollars are subject to living wage requirements - meaning our incentive programs are impacting the bottom line of every day New Yorkers.).
 - Ability to comply with Prevailing Wage
 - Ability to opt-in to living wage requirements even where not required by law or executive order
 - Participation in city workforce programs, i.e., HireNYC participation

- Use of innovative technology and processes in order to thrive in a 21st-century business environment
- Sustainability concerns (evidencing triple-bottom line goals and outcomes)
- Environmental review (compliance with SEQRA, among other environmental laws and regulations)
- Community support, as well as community concerns

Following board approval and subsequent closing, the approved tax benefits are available to a company subject to the restrictions of their particular agreement. At this point, our role with the project shifts to one of compliance and reporting. Our Compliance Department is devoted full time to monitoring and compliance, and when necessary, enforcing these agreements. We consistently collect, review and analyze an extensive list of financial and other supporting data for projects, actively monitoring over 600 projects at a time. Our Compliance group handles the following ongoing monitoring and reporting functions that help us make sure projects achieve their desired outcomes.

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Furthermore, our compliance department plays an essential role in helping publish our City Charter Report, which provides the public with access to a wealth of information regarding incentive programs and benefits recipients. The City Charter requires NYCEDC to submit to the New York City Council, the mayor, the City comptroller, the public advocate, city council members and the borough presidents, an annual report, containing descriptive data on a selected group of NYCEDC projects, the amounts of

City assistance provided by NYCEDC to the businesses involved in these projects, and estimates of the tax revenues generated by these projects. This report includes data on projects aggregated by project type and borough.

Reforms and Transparency

NYCEDC is committed to developing our projects through an open and transparent process to ensure our work is held accountable to all New Yorkers – and grows strong jobs with good wages across the five boroughs.

To that end, NYCEDC this kind of important information publicly available for NYCIDA and Build NYC projects in the following ways:

- Showcasing an interactive map that details fiscal impact, tax benefits, jobs created and more for each project.
- Enabling live and on-demand video casts and audio casts of our Board Meetings and Public Hearings
- Creating and publishing transcripts of all testimony provided during our public hearings
- Publishing detailed information for projects that will be covered in each upcoming NYCIDA and Build NYC Board Meeting and Public Hearing
- Providing the ability to sign up and receive NYCIDA and Build NYC email notifications and project information prior to hearings

Furthermore, during the last 5 years, NYCIDA's board of directors has approved a series of important reforms to the agency's operating procedures that established guidelines for greater transparency and accessibility. This includes more rigorous job

reporting and compliance requirements, broadcasting of both public hearings and board meetings, and dissemination of more project information prior to hearings.

These reforms are part of a continuous and ongoing review of policies and procedures to make NYCIDA more open and efficient. In fact, good government groups have praised NYCIDA as a model for increased transparency that should be replicated by other IDAs around the state. Case in point: upon NYCEDC's roll-out of more robust transparency measures in 2014, Good Jobs New York stated that "The suite of transparency measures enacted at the New York City IDA ... represents a steady forward momentum towards increased transparency at this agency," and "These particular initiatives increase the opportunity for New Yorkers to engage in the city's economic development process. We applaud these efforts to be more open and hope IDA boards throughout the state will follow the model set at the New York City IDA."

Conclusion

In conclusion, we agree that evaluation in general is a laudable goal with respect to city incentive programs. Here at NYCEDC we've incorporated thorough vetting and review processes, coupled with transparency and ongoing reporting measures. On the legislation, we'd appreciate the opportunity to work with Council to better define the types of data we'd be asked to provide IBO for evaluation. Additionally, we'd want the opportunity to have a thorough legal review on those data requests. Thank you for giving us this opportunity to testify. I'm happy to answer any questions you may have.

**Testimony before Committee on Finance
of the New York City Council
Real Estate Board of New York
September 22, 2016**

FOR THE RECORD

The Real Estate Board of New York (REBNY) is a trade association with 17,000 members, comprised of owners, builders, residential and commercial brokers and managers and other real estate professionals active in New York. We would like to comment on the Tax Expenditure Evaluation intro.

OVERVIEW

A review of economic development tax expenditures on a regular basis is in principle sound public policy. However, there are many practical issues that such a review poses that must be considered if the review is to be effective and truly serve its intended purpose. IBO should be given clear guidance about the program goals and its methodology should be approved by the Council. IBO should make clear in its analysis the fundamental difference between an economic development program which grants real property tax benefits and other tax benefits, such as sales or corporate tax.

Also, the public should be involved in this process. As part of this review, there should be an assessment whether there are significant flaws in the program which impede its effectiveness, especially when programs undergo significant changes such as ICAP.

OTHER CONSIDERATIONS

Economic development activity--whether it is constructing a new building, renovating an existing structure, or making a leasing decision—is typically a decision made over a period of years. For an economic development program to be effective in encouraging investment activity, a builder or tenant must be assured as they are considering an investment decision that the program will be available at the time they need to act. Frequent reviews, which raise the potential of sudden and dramatic changes in an economic development program's benefits or availability, would undermine its effectiveness. When reviews are held and programmatic changes proposed, we strongly recommend that these changes should be implemented at least one year after changes are adopted and that such changes include a grandfather provision that enable projects underway to receive the benefits they anticipated the existing program.

For a tax evaluation program to be effective, it is extremely important that there is a clear and complete statement of the program's goals. For instance, the Industrial and Commercial Incentive Program (ICIP) the predecessor of the Industrial and Commercial Abatement Program (ICAP) was frequently criticized because it did not create office or industrial jobs but simply moved tenants or businesses from one location to another. The goal of the program was to encourage capital investment to create new

buildings or to upgrade existing underutilized or obsolete space. This capital investment was going to create construction jobs and indirect economic benefits which were tangible program benefits. Similarly, it was easy to establish that this investment occurred. In short, the primary goal of the program and the basis for evaluating its effectiveness should have been capital investment, not on-site job creation. If this capital investment attracted new tenants to New York then that was an additional economic benefit. At the very least, the tax expenditure evaluation should be clear about what the fundamental goals are (and what they are not) as part of this analysis.

There has been a disproportionate emphasis in discussions about the benefits of economic development programs on whether a project could have proceeded without the benefit. Another potential goal of an economic development program is not simply making a project economically feasible. Rather it could be to promote economic activity in a geographic area or an industry that advances a clearly stated public purpose. In such a case, the goal of an economic development program is not simply to make the project feasible but to make the economics so appealing that it makes the economics of one type of project more favorable than another. One example of this was the 421g benefits in Lower Manhattan which favored the conversion of obsolete office buildings to residential use.

However, economic development programs do not create demand. The effectiveness of the 421g program was in large part due for the strong demand for housing, non-existent demand for office space in older buildings, and a planning framework to promote mixed use neighborhoods.

More recently, ICAP analysis presented to REBNY highlighted that hotels and retail projects were receiving the larger share of ICAP special area benefits and that office and industrial uses were receiving a significantly smaller share of those benefits. This was presented to suggest that the program was promoting the wrong economic development goals, although these goals were never articulated.

We think this outcome reinforces our point that economic development programs do not create demand. A better way to assess those results is that there was more market demand for hotels and retail and ICAP benefits made these projects feasible. In contrast, there was virtually no demand for office and industrial use in these special exemption areas which is why their share of the benefits is lower. This example raises a key point to consider in establishing goals for the program: Are the program goal's unrealistic or hopelessly optimistic.

The methodology and the data are also important aspects of the evaluation. We attended a Federal Reserve Bank event where analysis of the ICAP program—"Lessons from Evaluating the ICAP"—was presented. Though interesting, the data and methodology were flawed as a way to assess the program's effectiveness.

Here are some of the problems with this analysis. An inducement study, that only analyzes projects after they are built and operating, ignores the more important period of pre-development. This period is when success is uncertain, risk is real and the benefits of the program most important. Before a project is completed, there is the risk of being able to finance the improvements, to complete the construction of the project (either renovating an older building or erecting a new building) and to successfully market the space in the time period projected. The tax relief that an incentive program

provides can mitigate the level of risk and make a project which may be feasible, actually financeable and buildable. It is at this stage in the development process where the incentive program can advance a public policy goal when two types of development may be equally feasible.

As for the economic data in the study (the income and expense that DOF uses to assess the property), it is an unreliable source for determining a project "hurdle rate" and whether the program induced the project. First of all, in assessing property, DOF discounts expenses it believes is outside the industry norm (even though this may be an actual expense paid to an independent third party for services rendered). Next it adds income to a building when vacancies exceed the area average. This normalization of income and expense may be appropriate when valuing a million properties and for establishing an equitable tax system. However, using this normalized data to assess profitability and the hurdle rate to evaluate the inducement impact of the program is fundamentally flawed and seriously misleading, especially when there is no evaluation of the inducement value in the pre-development period.

CONCLUSION

We support the establishment of a method of evaluating tax expenditures but we are extremely concerned about the establishment of the goals and the methods of evaluation.

Also, we would ask that all data used to evaluate a program be made available so that interested third parties can evaluate the results independently.



Testimony to the Committee on Finance of the New York City Council

Tax Expenditure Task Force

Michael Simas, Executive Vice President

September 22, 2016

Thank you Chair Ferreras-Copeland and members of the Council Finance Committee for the opportunity to testify today.

The Partnership for New York City represents the city's business leaders and largest private sector employers. We work together with government, labor and the nonprofit sector to promote economic growth and job creation in New York.

We support a well-run and fiscally responsible government which is achieved, in part, by implementing data-driven, outcome-based programs. In 2010, the Partnership led successful efforts to overhaul the state's approach to economic development, resulting in the enactment of the Excelsior Jobs Program and the end of the wasteful Empire Zones Program. Excelsior is targeted to certain industries with the highest job and economic multipliers and posts performance-based data that is publically available online.

I was pleased to serve on the Council's Task Force on Economic Development Tax Expenditures, which recommended a structure to evaluate the city's economic development tax expenditures on a regular basis.

The structure outlined by the Task Force recommends that evaluations be conducted by an independent entity with sufficient technical expertise. The structure would further require the City Council to identify the goals of the city's tax expenditures for the evaluator to measure against and include an analysis as to whether tax expenditure is the best approach for achieving the program's desired results. Finally, the Task Force recommended that all future legislation creating or extending tax expenditures should contain explicit statements of the programs goals and metrics by which it should be measured.

The Partnership supports this legislation and the leadership of Finance Chair Ferreras-Copeland on this initiative. Data-driven analysis around clear goals and metrics will allow business and government to make better decisions about investment and public policy and help ensure that tax expenditures deliver on the goal of building a stronger economy.



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Member Testimony to the Committee on Finance

Good afternoon. My name is Clementine James and I am a member at SEIU 32BJ. Thank you to the Committee for the opportunity to testify here today.

SEIU 32BJ represents 155,000 members in 11 states and Washington, D.C. In New York, we are 70,000 strong. Our members are the hard working men and women who clean and protect our City's office buildings, stadiums, and schools. We keep our City's residential buildings up and running as doormen, porters, and supers. And, we make travel run smoothly as baggage handlers, cabin cleaners, and wheelchair attendants at the airports. As a security officer, I am assigned to an HRA building. I ensure that the public and the workers in the building have a safe environment to give and receive services in.

We applaud Councilwoman Ferreras for her leadership in convening stakeholders to evaluate if our City's precious dollars are being used well. We thank the Task Force for taking this process seriously and for working to create more transparency and accountability in public spending. Our president, Hector Figueroa was proud to sit on the Task Force and we support their recommendations. We also support Councilwoman Ferreras' bill to implement the work of the Task Force permanent.

The City spends billions of dollars every year in tax breaks. Our resources are valuable and should directly benefit as many people as possible and create jobs in our communities. At the HRA office I see the positive side of public spending: people come there to get the support they need in the form of housing assistance, childcare assistance, Medicaid, and SNAP benefits. Any spending that is not in the City Budget should be subject to an accountability process. We also encourage the Council to extend the evaluation process more broadly to housing development financial assistance too. Housing development financial assistance should be scrutinized for the developments ability to create affordable housing as well as its ability to create good middle-class jobs.

We support the recommendation that tax expenditures should be evaluated beyond whether or not they meet their goals, but the goals themselves should be examined closely in order to ensure the funds are actually benefiting the public good. Each time an economic development tax expenditure is reviewed, it should be evaluated for whether or not it meets the goals of combating poverty and creating good-family sustaining jobs.

Most importantly, if money is going to developers instead of directly into our communities, we should have a say in that process. The evaluation process should include a meaningful opportunity for public participation. As communities that could be affected by a particular development, we need to have our voices heard. All public spending should result in benefits to our communities, particularly good jobs.

Thank you for the opportunity to testify here today.



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

By James A. Parrott, Ph.D., Deputy Director and Chief Economist
September 22, 2016

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.

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>



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**Testimony of Josh Goodman
Officer, Economic Development Tax Incentives
The Pew Charitable Trusts**

New York City Council Committee on Finance
September 22, 2016

Good afternoon, madam chair and members of the committee. Thank you very much for this invitation. My name is Josh Goodman and I'm an officer with The Pew Charitable Trusts' economic development tax incentives project. Pew is a public charity that provides research and technical assistance to governments at the local, state, and federal levels.

My project helps cities and states make evidence-based reforms to their economic development tax incentives. To do that, one of the most important steps is to set up a process for regular evaluation, precisely what this legislation would do.

Lawmakers across the country are looking for ways to create jobs, raise wages, and help the local economy thrive over the long-term. Tax incentives are one of the primary tools that states and cities use to try to achieve each of those goals. They also collectively cost governments many billions of dollars. Regular, rigorous evaluation is a proven way to ensure that tax incentive programs are serving the needs of your budget, economy, and taxpayers.

Evaluations have provided reliable information on the economic impact of incentives, including the extent to which they're successfully influencing business behavior. These studies have also uncovered flaws in the design or administration of incentives and have recommended improvements.

This information makes a difference. In some cases, policymakers have used high-quality evaluations to make wholesale changes to incentive programs. For example, a series of evaluations found that California's \$750 million-a-year Enterprise Zone program was doing little to boost employment and instead was simply moving jobs from place to place within the state. In response, lawmakers replaced the program in 2013 with other incentives designed to address its flaws.

In other cases, evaluations have helped policymakers make subtle changes to incentives to improve their effectiveness. For example, a 2015 evaluation described a Maryland tax credit for



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rehabilitating historic buildings as a model program because of its strong fiscal protections. But the study also pointed out ways the tax credit could work better. For example, the evaluation noted flaws in the scoring system state officials used to determine which commercial projects would qualify for the incentives. In response, lawmakers extended the program for another five years while also adjusting the scoring system.

Until recently, however, lawmakers across the country have often lacked this type of information. In many states, incentives have been evaluated inconsistently or superficially, if they have been studied at all. At the city level, reliable studies on incentives have, if anything, been even less common. As a result, lawmakers have had little choice but to make decisions on incentives on the basis of anecdotes or incomplete information.

Thankfully, this situation is starting to change. Since the start of 2012, more than 20 states have enacted laws either requiring evaluation of tax incentives or improving existing evaluation requirements. These laws generally create processes where professional staff study major tax incentives regularly and then report the findings to elected lawmakers. Many of the laws require incentives to be studied on a rotating multi-year cycle, with different groups of incentives reviewed each year. That way, both the evaluators and the legislators can study a subset of incentives in detail each year.

We are also seeing growing interest in evaluation in major cities. Most notably, the City Council in Washington, D.C. approved legislation in 2014 requiring professional staff in the city's independent Office of the Chief Financial Officer's to evaluate incentives on a regular cycle.

In almost every case, evaluation legislation has received strong bipartisan support. These bills have also brought together supporters and skeptics of incentives alike, who agree on the need for better information.

These laws are each different. Each jurisdiction has customized the evaluation process to its own needs and circumstances. But successful evaluation processes usually share some common traits. For example, it's important to have an evaluation office that is capable of producing high-quality evaluations. The ideal office has a non-partisan perspective, a willingness to offer policy guidance, and experience studying the details of government programs or measuring economic and fiscal impact. It's also important to have a clear role for elected lawmakers because the purpose of evaluating incentives is to help inform economic development policy.

The legislation before you today reflects national best practices by giving the City Council a central role in the process. The Council is responsible for identifying a list of economic development tax expenditures to be studied and for developing an evaluation schedule. Then



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the Independent Budget Office, which possesses both independence and expertise, will provide you with high-quality evaluations. In this way, the process is designed to serve your needs. Once evaluations are published, you can hold hearings on the results, consider what actions are necessary, and work with state lawmakers to improve the effectiveness of incentive programs.

As a result, this legislation stands to make New York City a national leader in this area. New York City has an opportunity to be one of the first American cities to adopt a process for regular, rigorous evaluation of tax incentives. In doing so, you'll be able to help ensure that incentives are providing the best possible results for the city's economy, budget, and people.

I commend the Task Force on Economic Development Tax Expenditures and the Finance Division staff for their work to study how to design an evaluation process. I also commend the Council for giving this important topic the attention it deserves.

Thanks so much for your time and attention. I'm happy to answer any questions.

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I represent: @ SEIU 32bj

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Name: Joshua Goodman

Address: 4320 34th St. S. Arlington, VA 22206

I represent: The Pew Charitable Trusts

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