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Testimony of
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Before the
New York City Council
Committee on Economic Development

Oversight: The feasibility of requiring a unified economic development budget as a reporting requirement

New York City
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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute 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. FPI regularly prepares reports on the state of the New York City economy and the economic condition of workers and their families, and on city budget and tax policy issues. Thank you for the opportunity to testify today.

New York City needs more and better jobs for city residents, particularly during this Great Recession when the unemployment rate is 10 percent and nearly 400,000 city workers are jobless. With the city's poverty rate at 22 percent and 20 percent of families with one full-time, year-round worker not able to rise out of poverty, New York City clearly needs good-paying jobs that provide workers the opportunity to lift their families into the middle class. The City's economic development efforts should be central to this critical need for good-paying jobs.

The ability to effectively assess the City's economic development progress is hampered by the lack of a comprehensive accounting of how much the City spends in the name of economic development. We know the City spends an awful lot on economic development, but I don't think anyone can tell you for sure exactly how much the City spends each year and how those expenditures stack up against our stated economic goals and objectives. A unified economic development budget is a useful planning tool that would bring together the various forms of spending, identify the entities responsible for that spending, and facilitate an informed discussion by policy makers and legislators of economic development priorities and the programmatic areas through which those priorities are addressed. Several states, including Vermont, Texas, Ohio and New Jersey, have adopted legislation requiring a unified economic development budget. Such unified budgets typically include all economic development-related tax credits and tax exemptions as well as appropriated spending.

While the New York City Charter has a provision for an annual tax expenditure report, the City does not now have a document that brings together the host of economic development-related tax expenditures and appropriated spending for economic development. The January financial plan indicates that the total City funds FY 2010 modified budget for the Department of Small Business Services (SBS) is $82 million. (Including federal funds, largely for workforce development, and a small amount of state funds, the total SBS budget for FY 2010 is $179 million.) The SBS budget includes $37 million that SBS provides via contract to the Economic Development Corporation (EDC). EDC is a local development corporation whose board is appointed by the Mayor, with some appointees recommended by the Borough Presidents and the Speaker of the City Council. EDC also houses the City's Industrial Development Agency (IDA). The budget for SBS also includes an amount for the Mayor's Office of Film, Theater and Broadcasting.

The total amount of City fiscal resources for economic development provided through various tax expenditures dwarfs the $82 million in City funds appropriated for SBS. In fact, by our accounting, annual economic development tax expenditures are approximately $2.3 billion, over 28 times the City fund budget of SBS. An itemization of this $2.3 billion in annual economic development tax expenditures is attached. About half of this $2.3 billion takes the form of various real property tax exemptions and abatements, and about half is provided through a wide range of business income, personal income, sales or mortgage recording tax credits or exemptions.

The IDA grants property, sales and mortgage recording tax exemptions and reports those annually in the report mandated by Local Law 48 that was passed in 2005, and that super-ceded Local Law 69 passed in 1993. The tax expenditures granted by the IDA represent about one-tenth of the total $2.3 billion in economic development tax expenditures.

A unified economic development budget should also include data on the economic development related PILOTs (payments in lieu of taxes) received, and any expenditures made out of PILOT funds. These data are now reported to the City Council by the Mayor's Office of Management and Budget but since such revenues are often tapped for economic development related expenditures, any such "off-budget" expenditures should be incorporated into the overall economic development budget. This is particularly important as the Hudson Yards redevelopment moves forward under which PILOTs linked to extensive tax breaks, other development-related fees, and possibly "interest support payments" from the City budget, will be used to pay debt service on as much as $3 billion in Hudson Yards Infrastructure Corporation debt.

In the interests of transparency and accountability, the City should annually prepare a unified economic development budget. City reporting requirements and practices already get us part of the way there. The incremental information needed is readily available and it would be well worth the additional effort to compile a unified development budget.

Thank you.

Annual NYC Economic Development Tax Expenditures

Millions of dollars

Real Property Tax	**$1,111.3**
Industrial & Commercial Incentive Program	$568.0
Other Commerical & Industrial Exemptions	$26.4
Industrial Development Agency	$181.5
Economic Development Corporation	$12.2
Urban Development Corporation--Commercial	$217.8
Battery Park City Authority--Commercial	$95.5
Teleport, Port Authority	$9.9
NYC Personal and Business Income, Sales and Mortgage Recording Taxes	**$1,238.3**
Business Income and Excise Tax Expenditures #	$841.0
--Business and Investment Capital Tax Limitation	*324.0*
--Insurance Corporation Non-Taxation	*276.0*
--Other (Energy Cost Savings Program, Film Producton, etc.)	*241.0*
Sales Tax Expenditures ##	UNK
--Fuel sold to airlines	$120.0
Unincorporated Business Tax Credit on NYC Personal Income Tax ###	$135.6
Industrial Development Agency Tax Expenditures (other than Real Property Tax) *	$41.7
--Mortgage Recording Tax Exemption and PILOT Savings	*$32.2*
--Sales Tax Exemption	*$2.8*
--Energy Tax Savings	*$0.6*
--Tax Exempt Bond Savings on NYC Personal Income Tax	*$6.0*
Unincorporated Business Tax--Exemption for Carried Interest **	$100.0
GRAND TOTAL, all NYC economic development tax expenditures	**$2,349.6**

Sources: Unless noted with an asterisk, data are from New York City Finance Department, *Annual Report On Tax Expenditures, FY 2010*, February 2010. Real Property tax estimates are for FY 2010, estimates for other taxes are for other fiscal years, as noted.

Tax expenditure estimates by NYC Department of Finance for FY 2006.

Except for six specific exemptions, including fuel sold to airlines, NYC's Department of Finance does not estimate the value of sales tax exemptions, many of which are intended to serve an economic development purpose. Estimate for FY 2006.

Tax expenditure estimate by NYC Department of Finance for FY 2007.

* New York City Economic Development Corporation, Local Law 48 report for FY 2009, Table 2-1.

** See Fiscal Policy Institute, *Re-thinking the New York City Business Tax Treatment of Private Equity Fund and Hedge Fund "Carried Interest*," April 15, 2008. The 2008 FPI report estimated the annual value of this exemption at $160 million to $225 million; the $100 million figure used here is a conservative estimate.