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Testimony before the New York City Council Committee on Economic Development

“NYCEDC 2018 and Beyond: Borough-by-Borough in the Next Four Years”

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Thank you for the opportunity to testify. My name is Riley Edwards, and I am a Research Associate at the Citizens Budget Commission (CBC). CBC is a nonpartisan organization whose mission is to achieve constructive change in the finances and services of New York City and New York State government.

Last month, CBC published a report reviewing New York City’s economic performance during Mayor Bill de Blasio’s first term in office and recommending ways in which the City’s investments could be improved.

The city’s economy has been strong in recent years, with rising median wages and high employment growth. From 2013 to 2016, private employment grew 17 percent in Brooklyn, 11 percent in Queens, 8 percent in Manhattan, and 7 percent in the Bronx and Staten Island. As of 2016, 16.2 percent of private employment in New York City was located in Brooklyn, up from 15.2 percent in 2013 and 13.5 percent in 2001. Queens, the Bronx, and Staten Island have also seen increases. The geographic diversification of employment in New York City is a continuing and positive long-term trend.

Nevertheless, job growth in the city has been dominated by low-paying occupations in health care and hospitality, and job growth is projected to decelerate in 2018 and 2019. Meanwhile, persistent poverty and inequality are reminders that more opportunities are needed.

The New York City Economic Development Corporation (EDC) leads the City’s efforts in spurring job growth. In 2016 the annual cost of the City’s economic development efforts totaled \$3.2 billion, with much of this overseen by EDC. With this high cost comes a responsibility to ensure that New York City’s investments in its own economy are sound.



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Our recently released report, *Managing Economic Development Programs in New York City: An Assessment of Progress*, makes the following four recommendations to improve the City's economic development tools:¹

1. Establish more detailed standards for awarding discretionary tax expenditures;
2. Improve transparency and reporting on EDC projects;
3. Make capital investments in infrastructure to support job growth in underdeveloped neighborhoods; and
4. Use conduit financing to support growth in the arts, health, and educational sectors.

Discretionary tax expenditures

In addition to numerous "as-of-right" tax expenditures that are available to any firm that meets certain statutory qualifications, the City also awards substantial discretionary tax benefits, worth \$548 million in 2016, which are customized by EDC for individual projects or firms.

Twenty-two projects were awarded benefits in fiscal years 2015 and 2016. Nine projects were located in Queens and only one in Manhattan, with the rest split between the Bronx, Brooklyn, and Staten Island. Our review of these projects found wide variation in the benefits granted per job. Most projects received benefits less than \$30,000 per job created, but three projects received more than \$100,000 per job. There may be justifiable reasons for providing such a high level of subsidy; for example, these projects may be leveraging significant private investment. EDC should better articulate the goals of these projects, develop standards for awarding benefits that incorporate these factors, and provide a transparent method for calculating benefits.

Transparency

As required by local law, EDC publishes an annual report on projects receiving discretionary tax benefits; however, this report provides insufficient data to evaluate the full package of benefits provided to recipients. In addition, there is no reporting on outcomes of other EDC programs, such as start-up incubators. Two bills passed by the City Council last session made improvements to EDC reporting, but there remains a need for reporting that covers the full scope of benefits flowing to all EDC projects.

Capital investment

One of the principal ways the City supports outerborough job growth is through capital investment to establish and improve employment hubs. The biggest capital projects overseen by EDC in the last four years have been spread across all five boroughs, including Cornell Tech in Manhattan, the Brooklyn Army Terminal, the Staten Island waterfront, Hunter's Point South in



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Queens, and the South Bronx Greenway. Capital investment should be directed at establishing infrastructure to encourage job creation at the neighborhood level, like these examples, and should not be made for the benefit of individual firms.

Conduit financing

Another tool used by EDC to support economic development is conduit debt, which is issued by the City, but is the obligation of a business or nonprofit. Two entities that issue conduit debt, the Build NYC Resource Corporation and New York City Industrial Development Agency, are administered by EDC. Conduit debt has relatively low risk and low cost to the City and provides a lower cost source of capital to recipients because the debt is tax-exempt.

CBC supports use of conduit debt to assist the cultural, educational, and health sectors in lieu of direct City capital investment. Since 2016, 87 percent of conduit debt issued by these entities has been for these three sectors. Nearly half of the recipients since 2016 have been located in Manhattan, with an additional 30 percent located in Brooklyn. Conduit financing should be the City's main form of support for these sectors, rather than direct capital investment.

One final point is that, because of EDC's demonstrated success at managing its capital projects and its more flexible procurement process, EDC has broadened its responsibilities to include serving as capital project manager for other agencies' projects, many of which are not related to economic development. This trend discourages other agencies from seeking procurement reform and shifts EDC's focus away from its mission of job creation. While there has been some positive improvement in recent years, with a smaller but still substantial share of EDC capital expenditures coming from other agencies, EDC continues to have a broad mandate. For example, the NYC Ferry expansion and the BQX streetcar proposal are under the purview of EDC, although they are transportation projects in substance.

Reforms that standardize discretionary tax benefits, increase transparency, support capital investment in neighborhoods, and continue using conduit financing to assist nonprofits, while keeping EDC's focus on job creation, will move the city toward its goal of a strong economy that creates opportunities for all New Yorkers.

Thank you for the opportunity to speak on this topic. I am happy to answer questions.

¹ Riley Edwards, *Managing Economic Development Programs in New York City: An Assessment of Progress* (Citizens Budget Commission, January 2018), <https://cbcny.org/research/managing-economic-development-programs-new-york-city>.