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COMMITTEE ON FINANCE

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Chairperson

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A P P E A R A N C E S (CONTINUED)

Ronnie Lowenstein
Director of the New York City’s Independent Budget Office

George Sweeting
Director of New York City’s Independent Budget Office

Arash Farahani
Economist of New York City’s Independent Budget Office

[gavel]

CHAIR FERRERAS-COPELAND: Good morning and welcome to today's finance committee hearing. I am Council Member Julissa Ferreras-Copeland, I'm the Chair of the Committee. We've been joined by Minority Leader Matteo and other members will be joining us throughout this morning. I'd like to start by acknowledging the members of the Council's Economic Development Task Expenditure Task Force whose work brought us to today's hearing along with Council Member Dan Garodnick and myself. The task force members are Michael Dougherty, Hector Figueroa, Marilyn Marks Rubin, Marvin Markus, James Parrott, Seth Pinsky, Mike Simas, and Javier Valdes. Thank you also to OMB, the Department of Finance and of course IBO for your partnership and, and of course none of this were… would have worked had we… would… none of this would have been possible without Latonia McKinney and Dr. Ray Majeski and their team at the Council Finance. Today the committee is holding an oversight hearing on the independent budget office evaluation of the Commercial Revitalization Program, CRP and the Commercial Expansion Program, CEP. The evaluation was conducted pursuant to Local Law 18 of

2017 which this council passed in order to create a formal process for the evaluation of city economic development tax expenditures. Local Law 18 was the outcome of the recommendations made by the task force. The task force met over the course of 20 months between January 2015 and September 2016 and explored how the council could improve its oversight of New York City's economic development tax expenditures. In fiscal 2017, these tax expenditures cost the city… the city nearly 2.8 billion dollars. In general, tax expenditures commonly referred to as tax breaks are revenue losses that result from a special exclusion or deduction given to specific tax payers that exempt them from paying a tax they would otherwise have to pay. Economic development tax expenditures which were the focus of the task force are those provided to induce behavior directly related to providing business or investment income. Historically, tax expenditures have not been subject to the same kind of oversight as other parts of the budget even though they are used as a substitute for direct spending to achieve similar social goals. However, as a result of this Local Law the city of New York became the first municipality in the nation to adopt a systemized tax expenditure review process and bring stronger accountability to these expenditures. The council in collaboration with IBO selected the CRP and the CEP for the first evaluation conducted under Local Law 18. Briefly the CRP was created in 1995 to increase occupancy and encourage investment in the commercial space in Lower Manhattan and certain other areas of the city. The program provides a property tax abatement for tenants in… of buildings built from 1975 who may make certain minimum expenditures to improve their premises. Landlords and tenants are required to apply for the program jointly and the landlord is required to pass the benefit onto the tenant as a result as a rent reduction. In addition to the property tax abatement, certain CRP recipients are eligible to receive a reduction in the commercial rent tax liabilities. The portion of the CRP that apply to areas outside of Lower Manhattan was amended and expanded in 2005 to create the CEP. The CEP provides a property tax abatement for tenants in commercial offices and industrial and manufacturing spaces built in 1999. The eligibility requirements are modeled by the CRP but differ slightly with respect to the minimum expenditures required. According to the Department of Finance in Fiscal 2017 the property tax abatements for both programs, programs combined cost the city about 18.4 million dollars in forgone tax revenue and the commercial rent tax reduction costs an additional nine million dollars. Today the committee will hear a preliminary report from IBO and its evaluation. Upon conclusion of the evaluation IBO will submit a final report to the council that will include a more thorough analysis of the effectiveness of the CRP and the CEP and an analysis of whether these programs are achieving their goals and if the goals are still relevant and recommendations for future evaluations. We will now hear testimony from the Independent Budget Office about their experiences conducting the first tax expenditure evaluation and their conclusion about the programs they've reviewed. I want to thank IBO for their work and I'll have you begin after you are sworn in by my Council. We've been joined by Council Members Rosenthal and Cumbo.

COMMITTEE CLERK: Do you affirm to tell the truth, the whole truth and nothing but the truth in your testimony before the committee today and to respond honestly to Council Member questions?

RONNIE LOWENSTEIN: Yes…

ARASH FARAHANI: Yes.

GEORGE SWEETING: Yep.

RONNIE LOWENSTEIN: Okay, I'm Ronnie Lowenstein from the Independent Budget Office and I have the happy job of basically thanking you, we've really appreciated the opportunity to work with the, the Chair and the Council Members, the Council as a whole and especially Council Finance and the Economy Council Finance. It's the first time we've done a cooperative project at this… of this sort, it was a long time coming. I think we've produced something of value for the city as a whole and I look forward to more cooperation in the future.

GEORGE SWEETING: Hi, good morning, my name is George Sweeting also from IBO and the, the Chair actually covered most of what I was going to say which was to acknowledge that we are… you know today, today's presentation is… you know summarizes our findings and our results. We will be… we are working on a formal written report that will be submitted in the… probably early in, in the next year and, you know it will cover not just our findings but some of the issues that we encountered, some of the challenges we encountered in, in doing this work. So, with that said I'm going to turn it over to Arash Farahani who is the Economist at IBO that we added to our staff to do these… this type of work and has led the first evaluation.

ARASH FARAHANI: Good morning everyone, thank you for the opportunity to give us a humble summary of what we're doing in just 40 slides today. So, we… as… a lot of what was discussed is going to go into our review of the programs as, as… so we might go a little bit faster over those. So, in 1984 to 1992 the downtown office vacancy rate went from 11 percent to 22 percent, prompted, prompted by this in 1995, Commercial Revitalization Program came into effect. What it does is a property tax abatement and a commercial tax reduction for nonresidential Lower Manhattan buildings South of Murray Street that were built before 1975. In 2000 as an expansion to this program to outer boroughs basically Commercial Expansion Program or CEP came into effect. It is only a property tax abatement because there is no commercial rent tax for outside of Manhattan and it is again for nonresidential building in Manhattan North of 96th Street and outer boroughs that are built now before 1999 so anything basically built before 2000 when the law came into effect was eligible for this program. In 2005, CRP expansion program expanded the commercial rent tax reduction part of the program to nonresidential buildings that are South of Canal Street and are built at any time basically. At the same time other programs were targeted… were targeting these, these areas. The 421-G program for conversion of commercial buildings into multiple dwellings in, in the CRP region basically gives 14, 14-year abatement of about 80 percent of real estate taxes paid on the property before conversion to a residential dwelling. In 2005 at the same time with the expansion of CRP program commercial rent tax exemptions were for World Trade Center and CRT exemptions for all downtown ground floor retail were also included in the same law. So, what did we find in evaluating these programs? So, these programs as it was mentioned cost 27.4 million including the property tax abatement and a commercial rent tax reduction, participation rates in CRP's 22 percent while it is only one percent maximum for the CEP program. In terms of effects, downtown vacancy rates went down… went down after 1995 indeed however we do not find that it was because of the CRP program but it was rather market forces. Employment numbers show a, a similar result and in terms of design we find that participants in the program already, already invest much more than the minimum required physical improvements that are included with these laws. So, what are the participation requirements, there’s lease terms and physical improvements. For small firms that are… that have fewer than 125 employees you have to have a three year or longer lease for both programs, for… and you also need to make a five-dollar minimum physical improvement that are required for CRP and CEP and it is 20… two and a half dollars for CEP program. If you are a larger firm and your number of employees are more than 125, so your lease needs to be ten years and the minimum physical requirement… physical improvement requirements are much higher, they are 35 dollars and 25 dollars for CRP and CEP respectively. So, what do you receive in return for the investments and the lease terms that you have, you receive the minimum… the, the applicants receive the minimum of their property taxes and two and a half dollars which ever is less for three or five years, the… these benefits are received with a two year phase out schedule and the commercial rent tax reduction is also three or… is 100 percent of gross rent and three or five years with a two-year phase out. And after 2005 the phase out was not included in the law so you receive 100 percent reduction for the whole period of five years. As mentioned… as it was mentioned before these programs cost 27.4 million dollars in 2017 and that is equivalent to paying 197 police officers per year just to wrap our mind around what this number means. Property tax abatement is 18.4 million dollars, commercial rent tax reduction nine million dollars. And we want to evaluate this program with all the benefits and all the requirements. So, the first starting point for us is what are the goals of the program, what were the goals of the program, does the law state the goals of this program? No, we believe that is a shortcoming and that's something that we need to impress. Based on the testimonies and the design of the program, the assumed CRP and CEP goals in our view are… and this was in collaboration with the City Council to, to come up with these laws… with, with these goals is first of all to reduce vacancy rates. In the short term the program does this but giving benefits in return for occupying these older units. In the long term through building improvements so if you are making investments in a building you are… you are going to have a better quality and its going to be occupied with a higher probability so that, that would be the idea. At the same time to increase employment. So, to evaluate we look at the program participation rates, we look at neighborhood effects which are office vacancy rates and rents, employment level and also, we, we look at data on… building level data on investments or physical changes to these buildings and the owners rental, rental income. So, looking at these our idea is to evaluate are the… whether the programs are meeting their goals, are the goals still relevant and are the programs efficient so just keep… let's keep… let us keep that in mind while we're going over the different results. We have collected a lot of data from various sources to do this evaluation but there are a lot of limitations also. What we have are neighborhood office rent and vacancy rates, zip code by industry employment, buildings square foot, other exemptions and, and more from the administrative property tax assessments, owners rental income and a

CRP and CEP application. So, with this applications in 2010 to 2017 basically everything that went in… on the application forms were digitized so that includes addresses, lease terms, program type, expenditures, number of employees… so anything that was required by the program. In… through… from 1995 to 2010 though only addresses, lease terms and program types were digitized, and detailed records are also destroyed for applicants prior to 2005 altogether which is a, a common procedural trend for, for all the programs. For 2005 to 2010 there are hard copies but it, it is… it will be costly to digitize them at this point. So, what we… what we do not have is also important because that, that has limited our ability to do some of the analysis that we thought we could do; so… building level vacancy rates, establishments by address level employment, income and expense for all owners are mind data sets that are available, but we do not have access to. So, these can be very easily turned from red to green for us but there are other limitations that are procedural so commercial rent tax data did not record CRP special reductions until 2017 and there are no building level data so… and also there's no consistent record of past property tax abatements. These are only recorded on a ruling basis so if you want to look at the history that is not currently or easily accessible at this point. So, all these have led us to come up with our plan B’s which is what we’re going to see today. The first thing to look at is the eligibility and participations rates, so who are we giving this program to, who is becoming eligible? So… for the CRP we… the… so, here under vertical access we see the gross square footage and under horizontal access it is different years. The blue parts of each bar show the square footage of eligible buildings for the CRP region and the rest of the bars basically show who is now eligible and why and note that these are only the mixed use and commercial buildings that are in the CRP region which is basically down town. So, the take away from this is that basically most of the buildings are eligible in the downtown areas, most of the commercial and mixed-use buildings are eligible for the CRP program. This was much… it was… it was true to a greater extent before 2001 because the World Trade Center was one of the buildings including some of the buildings that were eligible for the program and today this is true to a lesser extent.

So, the number of buildings built before 1975 is declining, there are newer buildings built, also there are class changes so there are buildings that were old before and now they, they are… they are not commercial anymore so they're residentials. So, these new trends are noteworthy when it comes to who is taking advantage of the program and whether it is… how relevant it is for today. How about participation rates, so obviously in 1995 the participation rate was zero. Under vertical access we see the percentage of the eligible buildings that are participating or… that are enrolled in this… in this program at any time. The most clear green line is showing the, the participation rates for CRP. We see that it is peaking in 2009 at 22 percent so that would be like this point here and it is declining in the financial crisis. So, just focusing on the CRP program for a moment we should note that it is not a… it is not a counter-reciprocal participation rate, so it is not the case that when the market is low there are a lot of people that need this program and are coming to take advantage of this, it is that when the market is doing well anyway there are a lot of buildings that are participating in the program. At the same time down here, you might not have noticed without the legend that we have CEP participation rates and CRP ’05 participation rates so the maximum for the CEP is in 2017 and it is only one percent, so it had been growing over time but the… basically all of the buildings, all the commercial buildings built before 1999 are eligible for this program and participation rates are very low. For CRP ‘05, it is the same thing, so it has been growing but it is at its maximum in 2017 only at two percent. So, in summary the majority of downtown building offices are eligible for the program, note that about 12 million square feet were turned residential only because of the 421-G program that we discussed earlier. The maximum CRP participation rate was 22 percent and although the number of CEP applications are rising it is only percent at its highest. So, what were the effects of participating in the programs, we first we want to evaluate if it worked so that is in simple terms what we want to look at now. To do that we, we ask the basic question what would have happened without these programs so that is… that is our initial starting point of analysis but for the solution concept we consider an experiment with a treatment and a control group and we compare the outcomes of the two groups. So, the control group is going to represent what would have happened without the program, the, the people who did not have the program but had the same outcomes or had may… maybe different outcomes. So, that's what we're looking at here. For office vacancy rates we have collected data from Cushman and Wakefield at the neighborhood level from 1984 to 2016. Here we can see the vacancy rates in the downtown area from 1984 to 2016 so this is the 22 percent or so vacancy rate that was alarming to the lawmakers to come up with something to reduce the vacancy rates in the downtown area. We see that after 1992 it has already started to decline but after 1995 we see a very sharp decline and we know that the CRP is started in 1995 so the question is was it CRP or was it something else. So, the green line here us showing the percentage of buildings that are enrolled in CRP, percentage of all buildings in downtown that are enrolled in CRP. So, we see that in the 1995 to 1997 period that we see a very sharp decline in CRP, there aren't that many applicants who are in the CRP program so this… so, it doesn't seem like all of the decline could be possibly explained by the participation in the CRP program. We also see that the, the average vacancy rate over time in downtown has been 12.4 percent over… 1984 to 2016. So, how do we… how do we make the final judgement we want to compare these numbers with the Midtown area of vacancy rates. So, to do that we first look at the deviations from the historical averages for these two series over time. So, the blue line here is now downtown, the red line is Midtown, and both of these are now averaging around zero because we have subtracted their averages from, from them over time to make… to be able to compare the trends not the levels. So, what you can see is that Midtown also had a very high vacancy rate in 1992, it also had a very sharp decline until 2000 so… but Midtown, Midtown area didn’t receive CRP program and it still had the same rates. In fact, if we look at the Hudson, Hudson River in New Jersey we will see the same trend, if we look at the Midtown South we see the same trends. So, for whatever area that we have had data in the New York vicinity we, we see the similar trends. So, we do not observe any off the trend effects of the CRP on vacancy rates. Similar trends in other areas including Hudson waterfront in New Jersey are observed and considering 1984 to 2000 if you run a regression and formalize this in a difference in different strategy which is commonly used for such analysis we see very small negative effects which is statistically insignificant. In simple terms we… there… we do not find any effects of the CRP program on the vacancy rates. Similarly, no effects are found for office rents which we did not present here. How about employment, so again we are looking at the trends in downtown area over time now the vertical axis is showing the… a number of employees in downtown area and the different colors of each bar are showing the industry mix of jobs. Two things that are noticeable are that the trends are very similar to the vacancy rates that we saw, when the vacancy rate is high we expect the employment to be low and that is what we are observing here. The number of employees in 1993 experienced its lowest and then it moved throughout the… through, through, throughout the rest of the decade. We also see that a lot of the buildings… a, a lot of the jobs in downtown are in finance and insurance, it is no surprise to anyone in this audience I believe but what we see is that the number of finance and insurance jobs as a percentage has declined over time in downtown areas. And in general, the number of jobs are lower than they were before in downtown. Again, we talked about the buildings being more residential at this point, that might be one of the factors but not all. So, the summary of employment is now… we're not going to go through all of our analysis for employment. Again, we see very similar trends are found in, in Midtown for employment, how our downtown employment grew slower in 1995 to 2000 than Midtown and industry composition matter a lot. So, finance jobs grew faster or slower that's going… whether they grew faster or slower is going to determine what happens in the downtown areas. So, after controlling for industry composition post 1995, downtown still grew at a slower rate than Midtown. So, it was not just the composition of the building… composition of jobs. Similar results are found for CEP if we look at the period before and after 2000 which is that basically the… they are just following the market trends, and nothing is… special is happening but this is CEP highly expected because there was only a one percent participation rate in this program and what we do not expect that to create a whole lot of jobs. How about physical improvements?

So, one of the ideas for the… in the design of these programs seems to be that… let us subsidize physical improvements in these buildings. So, by requiring the participants to make investments into the buildings that they are occupying. So, the first thing that we want to see is that what was the effect of that five-dollar minimum expenditure requirements, did it make people invest more than they would have in the buildings or not? So, this table is, is telling us that… its telling us that the percentage of the participants in the program and this is only 2010 to 2017 data, that spent six dollars or less per square foot so five dollars is the requirement only 20 percent of them stick to the six dollars or less. Even if we doubled that number to ten, double the minimum expenditure requirement, only 38 percent of them are spending less than 30… less than ten dollars. How many people are spending greater than say 35 dollars, that is 32 percent so people who are participating in these programs are spending much more than, than minimum expenditure requirements. So, any expenditures since there… since the… what they are receiving in this return is just ten dollars over, over the five years, any expenditures in excess of ten dollars is definitely considered to have happened without the CRP program. So… but the story is a little bit different when we look at the CEP program. For CEP, two and a half… two and a half dollars minimum expenditure requirements are expected, 42 percent of the applicants stick to three dollars or less and 63 are spending six… 63 percent are spending six dollars per square foot or less but it… still 11 percent are spending more than 25 dollars or ten times the minimum expenditure requirements. So, this means that there is some… there are some differences in the CEP applicants so these, these folks are mostly in manufacturing on manufacturing leases and the… and, and, and at the same time even like the two-and-a-half-dollar minimum expenditure requirement for some large spaces is going to be… going to be a lot. So, here before explaining this figure the, the context is that we are giving tax breaks to, to the tenants and owners of these older buildings and the idea is do we get our returns on investments in the future, how do we get… how might we get such returns on investment, one idea would be that yes, the vacancy rates are now lower, the buildings are generating more income and we're getting more property taxes. What we showed earlier is that that is not happening because of the program that the vacancy rates are lower on their own not because of the program. Another channel would be that the owners are now making physical improvements to the building and because of the physical improvements or assessments of the buildings are going to be higher so our tax rates is going to be higher. Here we want to address whether that is happening, so this is a scatter plot with a 45-degree line, on the horizontal axis we are showing the CRP investment per square footage as found in the CRP application data. On the vertical axis we are showing the physical improvement per square footage as found in the property tax assessment. We are aggregating this data for 2010 to 2013 for the CRP but we are giving an additional two years for the property tax assessments to reflect the expenditures, that is we are averaging them… we are summing them over 2010 to 2016. So, here we see that a lot of the times there are significant investments made by the CRP applicant but the physical improvements in our tax records show that the physical changes are zero whether this is procedural or legal or whether it is derived, derived by the type of the expenditures that we have here the conclusion is the same, we are not getting such returns on investments if that was something that we were expecting. So, in conclusion and to wrap this up, we find that downtown vacancy rates went down after 1995 but not because of CRPs, we find that employment numbers show a similar result, participation rates in CRP is 22 percent at its max, for CEP it was only one percent. CRP and CEP costs 27.4 million dollars in 2017 and that might be believed as the best indication of what will happen going forward. Summary of findings continue, we also found that CRP five-dollar minimum required investments are below the typical for most leases, CEP two and a half minimum required investments are more significant. The property tax assessments do not measure the CRP and CEP physical improvements not only we do not get returns on investments, but it has also limited our ability to examine other things that we wanted to use this data. Further considerations or considerations for the future is that in recent years downtown office vacancy rates are very similar to Midtown, we do not have the sparks of 1992 and 1993. Downtown office space is now newer, 421-G program incentivized a lot of the building owners to convert to residential. Also at the same time market forces seemed to have done the same even post 1975 buildings are now residential that do… could not receive the 421-G benefits. Different industry mix is also present now from what we had in 1995. Participation also… we, we wanted to highlight that the participation rates in the CRP are not counter-reciprocal, so this program is not… doesn’t look like it is playing a safety, safety net role for downtown buildings. Recommendations, our recommendations are going to be just procedural so one thing is that is to include stated goals in the law when we have a new program so, so that every time you want to renew it we know why are we renewing or are we updating our goals or are we sticking to the same goals and let us have a measurable goal that is let us track goals and the data. For example, vacancy rates, if we are targeting vacancy rates we should make preparations to have data on vacancy rates. Return… retaining data of tax expenditure programs seems obvious enough for our evaluation and design going forward and it would be great to operate the collection, collection procedure for the policy evaluation services. So, the majority of data that we try to utilize for this evaluation came from administrative or tax administrative data that was collected… that were collected for tax purposes and tax administration not specifically for evaluating economic programs. Thank you for your time and we'd be happy to receive questions.

CHAIR FERRERAS-COPELAND: Thank you, I think we should give you a cup of water there. We were joined by Council… oh we are joined by Council… were joined by Council Member Gibson, Johnson, Levine, Van Bramer and Cornegy. We have… sorry? Oh, we have some questions, for this evaluation of the CRP and the CEP what do you have left to do, what are the final… what are you looking to include in the final report that were not addressed in today's presentation?

ARASH FARAHANI: So, the final report includes a lot of our methodological ideas of why are we saying what we are saying that we did not discuss here today also it includes a more detailed list of our data limitations and what we think might help us in… might have helped us in evaluating these programs. So, some of the things… some of the data restrictions are not having access to like building level data that would have been very helpful for our analysis. At the same time, we will include some notes on the relevance of the program now given the goals of the program and given the state of the variables that these goals might track over time.

CHAIR FERRERAS-COPELAND: And I think in your recommendations one of the things that came up in the task force is that across the nation like the number one problem is that goals are not necessarily clearly stated, Sunset sometimes, right not all of these… or these abatements are… include an end so we, we're definitely happy to see as the committee that, that you… we're, we're… the recommendations are very similar to what we were thinking. When you were negotiating… when we were negotiating Local Law 18 we had many discussions about funding to ensure that IBO would have the resources it needed to be able to conduct the evaluations, in doing this evaluation did you face any resource constrictions, and do you anticipate any new needs related to the evaluation work we are now required to do?

RONNIE LOWENSTEIN: Happily we had sufficient resources to do this, we expect the upcoming year to also provide us with sufficient resources to continue this work, we think it's important and we value the collaboration.

CHAIR FERRERAS-COPELAND: Great. And the legislation stays at the council and the evaluator will annually set the schedule for evaluations with the idea that at least one tax expenditure will be evaluated each year. Does that schedule still seem reasonable to you based on the amount of work it took to conduct this evaluation?

GEORGE SWEETING: Yes.

CHAIR FERRERAS-COPELAND: Okay, great.

GEORGE SWEETING: I mean one of the reasons we… you know we don't have the, the written report done at the end of this calendar year is that, you know this year we got… we didn't get started until, you know I think it was mid-April before we… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …settled on what, what the program to evaluate was, I expect that that will go… that will come earlier in the year next year and you know we've, we've set this up internally on the assumption we're going to do, you know one or two of these programs a year.

CHAIR FERRERAS-COPELAND: Yep, great and now that you've almost completed one evaluation are there any best practices or lessons learned that you can recommend the next evaluation that will conduct… that you will be conducting next year, or do you need a couple more under the belt?

GEORGE SWEETING: Certainly a couple more under the belt wouldn't hurt, you know I think we learned this year, you know we, we tried to stay in touch with, with the finance staff, that's obviously critical to making this work and we would expect to continue doing that. The… you know some members of the staff attended early research… we call them research reviews and a… opportunity to hear preliminary results in a… you know a, a professional setting really go through the, the nuts and bolts of the… of the methodology or whatever, that was very useful. I think, you know we would expect to do that, I think maybe one, one area might be if its… if the administration is amenable is to bring the administrative agencies into some of that… those early meetings, I think… this year we were surprised a couple of times by, you know data that we thought we might be able to get or that would be… have utility that turned out to not be very useful.

CHAIR FERRERAS-COPELAND: Okay. Can you talk more about the concept of return on investment, your presentation indicates you defined it as increased property tax revenues, is this too narrow a definition and could there be other valuable measures by which to look at return on investment?

ARASH FARAHANI: Absolutely, so if you're having a program that is increasing employment that is returns on investment, if you're… we have a program that is increasing the vacancy rates and that is something that we care about that is returns on investment. However, in absence of… absent finding any of those results our definition was merely to focus the returns on investment on another avenue that might have been possible for us which as we get higher taxes in the future on the tax breaks that we give today.

CHAIR FERRERAS-COPELAND: Great and I know that we have a great working relationship with DOF but its clear that some of the data essential is needed from DOF, so my next question is for the three data sets you referenced that exist but which you couldn't access which was building level vacancy rates, address level, employment… and employment and RPIE… [cross-talk]

ARASH FARAHANI: Uh-huh… [cross-talk]

CHAIR FERRERAS-COPELAND: …did you ask DOF for this information and if so I'm sure they said no and when they said no did they provide the written explanation of the denial required by Local Law 18?

GEORGE SWEETING: I'd have to go back and check on whether… how exactly the, the message was communicated, I'm pretty sure it was probably in emails which… but the, the explanation was that, you know under current limitations for example on the income and expense data that, you know that's… its privileged by state… under state law and they're… they are not allowed to share that and they, they explained that to us. I think on the, the building level vacancy data that all… well actually that also comes from the RPIE and we didn't… we didn't have access to that because of that.

CHAIR FERRERAS-COPELAND: Now you, you have been able to for other evaluations that you've had you've been able to kind of I guess gain access to privileged data because you’re sworn to be keeping… I’m sure… I, I don’t know what the official process is called…

GEORGE SWEETING: Sworn to secrecy…

CHAIR FERRERAS-COPELAND: Sworn to secrecy and has that ever… was that every broached or an opportunity in the future to be able to have that data under like sequestered or I, I don’t know what the proper term is that you have on… [cross-talk]

GEORGE SWEETING: In particular around the RPIE data the issue there is that there… on, on some of the data that we are able… much, much, much of the property tax data is, is public and… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …the… we, we do very well working with finance on, on receiving that data. On the RPI… and, and, and some other tax administrative data for example the commercial rent tax we are able to get, they, they are able to share commercial rent tax data with us because in the commercial rent tax law there are provisions that say it can be shared per tax administrative purposes with other city agencies and the lawyers have decided that, that our relationship qualifies there. The RPIE law, I, I don’t want to quote exact chapter and verse but I… the, the RPIE role… law is written differently in that particular approach to sharing data with us apparently cannot be… cannot be fit so that… it’s our understanding that the only solution… their inter… our understanding of their interpretation of the law is that the only solution is to change the law in Albany.

CHAIR FERRERAS-COPELAND: And that’s always very easy…

GEORGE SWEETING: Yes.

CHAIR FERRERAS-COPELAND: Okay but we can dually leave that as a suggestion for the future council. And while I’m very excited that you were able to communicate with DOF through email the law states that it should be in writing and shared with the council, so we can circle back, and I think DOF out of peripheral are going to be writing that information immediately and getting it to the committee as soon as possible, wonderful thank you. the advantages of not being over there… through… though there were no stated goals as mentioned in your presentation for either program they were created to identify… they were created, you identified the goals of the programs to be both to reduce vacancy rates and improve employment, in your opinion are these goals still relevant in today's market and economy and do these goals align with the city's current economic development policy goals?

ARASH FARAHANI: That's a very hard question.

CHAIR FERRERAS-COPELAND: That's why I asked…

ARASH FARAHANI: So, I want… I want to go back to this vacancy rate figure here, so in 1992 the vacancy rates were at 22 percent much… a lot… by a lot above the historical average, right now the vacancy rates in downtown office areas are around ten percent so it is still a, a large number but one of the things that we did not discuss is that the mix of the buildings in downtown in 1994 was very different so this is by class B and class A, class B are basically older, older buildings and then… and the share of the class B buildings in downtown is much higher than it is in Midtown which is the… shown by the green line here. So, that, that also has changed over time. The older the, the worse buildings that remained vacant presumably are now residential because they received a lot of incentives through reconstruct and make it residential and we can… we, we have priced that in the data that is the… about ten percent of the gross square footage of downtown is now residential just because of this 421-G program. So, if you just look at the employment rates in downtown, employment numbers in downtown they are lower than they were before but a big factor of that might be that there are now fewer commercial, commercial buildings to start with, so we believe that the… I believe that the vacancy rates are, are the most important indicator for us and for this policy and that doesn't have… seem to be an issue anymore like it was in 1992.

CHAIR FERRERAS-COPELAND: So, I guess your final report will kind of answer whether it is needed or whether… or I guess have a clearer perspective on when housing is competing for commercial space and the conversion thereof and what it can impact… how it will… can impact other areas in our city.

ARASH FARAHANI: Uh-huh.

CHAIR FERRERAS-COPELAND: And some of your preliminary findings indicate weak evidence of effectiveness of the program for example that it encourages investment and physical improvements as you mentioned however you mentioned confounding factors and caution against attributing any increase and investment to the CRP or CEP, what might be these factors be independent of I guess of housing, right which you just said the conversion of housing… [cross-talk]

ARASH FARAHANI: Yes… [cross-talk]

CHAIR FERRERAS-COPELAND: …and is there… if there is in effect encouraging investment in physical improvements in CRP and CEP costs effectively… effective in doing so should the city be paying to support these investments?

ARASH FARAHANI: If I understand the question correctly it is… whether it is encouraging or whether, whether it is improving the level of investments into the buildings so to some extent that it might be, so we do not have definitive evidence on that so… because we are executing our plan B basically…

CHAIR FERRERAS-COPELAND: Your plan B because you didn't have the information?

ARASH FARAHANI: And… not exactly, so the, the plan… the plan A was to look at the physical improvements data and compare the physical improvements of the buildings that are in the program and those that are not in the program… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

ARASH FARAHANI: …however in light of this figure we, we basically found that the Department of Finance data that we have on physical improvements is not a good indicator for what we are trying to track.

CHAIR FERRERAS-COPELAND: And is that a good indicator because they don't track it, or they just started tracking it?

GEORGE SWEETING: Right, if, if I could… [cross-talk]

ARASH FARAHANI: Sure…

GEORGE SWEETING: I, I think one of… there, there are physical improvement… there's data about the physical improvements in the commercial rent… in, in the, the CRP application data but it turned out that that's only there for 2010 through 2017, prior to that finance didn't capture it… [cross-talk]

CHAIR FERRERAS-COPELAND: Okay… [cross-talk]

GEORGE SWEETING: …they had… people had to fill it out on their forms, but it wasn't stored in any of their databases.

CHAIR FERRERAS-COPELAND: And how long do we keep things in storage that is written?

GEORGE SWEETING: Well on… so, on… the electronic database, its, it's there as long as someone had entered it originally… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: For… so then we thought okay we could go back and we'll look at the paper records from before 2010 and it turned out there that the paper records only went back to 2005 because the… from 2005 to 1995 data had been destroyed, you know it's understandable why the administration… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …would do that… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …I think one of the suggestions we're going to make is that if, if this policy… this program of doing these evaluations is pursued that we… working with the council and the administration that there… we come up with a defined list of tax expenditure programs that we want… we expect we're going to be evaluating over the coming years… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …and that we then identify those files, the files that pertain to those particular set of programs as things that we, we keep, you know beyond the, the, the standard retention period precisely to make it possible to go back and do some of these evaluations.

CHAIR FERRERAS-COPELAND: Do you know what are standard retention period is now?

GEORGE SWEETING: I'm not familiar with exactly, you know what, what finance does but… I mean

I think, you know each agency sets the rules on, on… [cross-talk]

CHAIR FERRERAS-COPELAND: Oh okay… [cross-talk]

GEORGE SWEETING: …if they do that.

ARASH FARAHANI: But it is likely that we will have a lot of these records because now they are collected electronically going forward, it's not going to be a big issue but going backward… [cross-talk]

CHAIR FERRERAS-COPELAND: Right but going back which, I think we're going to probably be going back at least for the first five years of these evaluations.

ARASH FARAHANI: But let me address what are plan B actually does…

CHAIR FERRERAS-COPELAND: Right…

ARASH FARAHANI: So, what we did was, was to say that okay, five, five dollars a minimum expenditure requirements are in the law so we expect to see at least them and we, we can see them but do people stick to this just five dollars or do they go way beyond it and what we saw is that only 38 percent of the participants are spending ten dollars or double the minimum requited expenditure or less, the rest of the people, the rest of… what will be 62 percent are spending more than ten dollars and ten dollars is the total sum of the property tax abatements that they are receiving.

CHAIR FERRERAS-COPELAND: So, is that ten dollars is the maximum of what they can benefit from like that's… [cross-talk]

ARASH FARAHANI: Yes, yes… [cross-talk]

CHAIR FERRERAS-COPELAND: …the… that's the, the… so if they make an improvement greater than ten that's their decision now… and you may not be able to answer this, but we've always talked with DDC about the cost of construction… [cross-talk]

ARASH FARAHANI: Uh-huh… [cross-talk]

CHAIR FERRERAS-COPELAND: …especially in New York City so it… you know I think if… at, at first look you would think well maybe they're just being luxurious and wanting to, you know do these amazing office spaces, but it could also be a factor that it costs more to build in the city…

ARASH FARAHANI: Uh-huh…

CHAIR FERRERAS-COPELAND: In Manhattan, the city is… I'm from the outer boroughs… [cross-talk]

GEORGE SWEETING: Right… [cross-talk]

CHAIR FERRERAS-COPELAND: …of Lower Manhattan the city but I meant Manhattan is, is that something that kind of is reflected or, or is it just that it's just more luxurious companies are taking advantage of this tax expenditure.

ARASH FARAHANI: It could be because of construction downtown or it could be simply offices with longer lease terms are spending more money to, to do that but as, as the CRP, CRP program evaluation is concerned we were wondering if the five dollars minimum requirement expenditure is pushing them to do some expenditures that they wouldn't have done before but what we are… what this is showing is that they would have spent whatever they are spending beyond ten dollars is not because of the program… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

ARASH FARAHANI: …it's something that is happening when they are signing a new lease whether it is done by the owner or the renter is not clear in our data but what we know is that they are spending a lot more than the… what we are requiring them so… and another way of thinking about it is that the five-dollar expenditure requirements are not a barrier for their entry or participation in the program because they are spending much more anyway.

CHAIR FERRERAS-COPELAND: Should, should we be increasing the, the… [cross-talk]

ARASH FARAHANI: It depends… we, we, we're not going to make any recommendations on this, it depends on the goals of the programs going forward… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

ARASH FARAHANI: So, what are… what are we trying to target.

GEORGE SWEETING: But, but… I mean I would… you know it's, it's not uncommon in some areas of, of tax policy to have thresholds indexed for inflation or, or some measure of… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …of, of increasing costs, I mean this five-dollar number was set back in 1995 when, you know certainly CPI was much less than it… you know it was different and… [cross-talk]

CHAIR FERRERAS-COPELAND: And our vacancy rate was… [cross-talk]

GEORGE SWEETING: The, the… and the… and the construction cost indices were different so, I mean one, one possibility or one thing that… you know that, that… you know the, the policymakers might want to consider next time this is up for evaluation… for extension is indexing that number, maybe have a one time jump up on it… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: So, that you're… if you're… if you think you need the incentive to encourage people to make significant investments in the building, you know have it as a relatively significant level… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …five dollars is pretty low these days.

ARASH FARAHANI: So, it was three and a half dollars in 1995 if we want to compare the inflation base numbers.

CHAIR FERRERAS-COPELAND: Okay… [cross-talk]

ARASH FARAHANI: Yes… [cross-talk]

CHAIR FERRERAS-COPELAND: Great. As part of your evaluation did you talk, survey or otherwise interact with any of the recipients of the benefits, I know we did some preliminary, preliminary conversations when we were trying to choose in the task force and kind of better understand both these programs, were you able to make an assessment as to whether the program was administered in a user friendly manner or whether certain changes such as paperwork or filing requirements may be necessary to increase participation in effectiveness of the program?

ARASH FARAHANI: We, we did interview with the downtown alliance who, who are a reference point for people who want to participate in different programs that are available to downtown and we discussed whether they have done any surveys in the past on these programs and seek their advice in doing so, it seems while we didn't have a chance to survey the people who are enrolled one of the challenges seems to be finding the person in the company, a lot of times it's just a representative firm that actually knows about this program at the company. So, it, it, it would be very difficult to conduct these surveys not like surveying a household that you know who's the head of the household. However… so there, there are two facts that we found, there is… one is that downtown is a very concentrated area and all the brokers basically know of downtown alliance and a lot of times they're… they are receiving phone calls from people who are basically referred to them by the brokers that is not happening in the outer boroughs of the city because it's a very large area and at the same time they… so they… so, it, it would be nice to let them speak themselves but… so, my understanding is that they sometimes receive calls from people who want the downtown alliance to fill out the forms for them and do all of the things which is not something that they do but there might be some difficulties in finding out… [cross-talk]

CHAIR FERRERAS-COPELAND: For technical support.

ARASH FARAHANI: Yes.

CHAIR FERRERAS-COPELAND: Okay, I think that probably this committee moving forward probably has a role to kind of get some of those tenants or participants to kind of come in and identify themselves and, and we'll be able to share that information in a… in a different way… yes?

GEORGE SWEETING: I'd just add I think… I think in future evaluations… [cross-talk]

CHAIR FERRERAS-COPELAND: That's my next topic…

GEORGE SWEETING: I, I would expect that, you know if… you know in, in this case we were kind of scrambling to pull… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …pull something together and there were, you know aspects of, of the over… of the most complete evaluation you'd want to do that, you know I could see trying to fold in, in the next iteration.

CHAIR FERRERAS-COPELAND: Right and I really appreciate it, I think that we… you know for the public and for the record we wanted to do this.

As you know my Chairmanship is over in I think a couple of hours, but I really appreciate you coming in to testify at this time because this was really important to me and, and very much a legacy setting for this council so I know… I know that you guys are perfectionists and you would rather give it… all your information out when you had all of it together and you're… you know you're very professional in that way so I know that this probably was a little painful to kind of come out and, and testify, painful might not be the right word but you know I really do appreciate it. I want to talk… you mentioned about the future, the current evaluation program is focused on economic development tax expenditures, I really had to hold members back literally because they, I think every meeting and you were privy to many of these meetings wanted to talk about the housing development tax expenditure which is, you know a very large tax expenditure and also represents a large financial commitment from our city but are not currently subject to independent evaluation, has you experience in the first evaluation given you any insight into how you might undertake evaluations of housing development tax expenditures if you were asked to do so and Department of Finance don't start tweeting or texting?

GEORGE SWEETING: First of all we, we… there's, there's nothing, nothing that currently precludes us from doing evaluations of, of housing, housing development programs and I think, you know we've done a fair number over the years particularly focused around 421-A and, and, and some others. So, you know I, I think we have… you know we have a pretty good sense of how you do those, and I would expect we're going to continue doing those whether they come as part of a formal… you know this formal process, or you know studies that are undertaken at the request of individual council members or, or studies that we initiate on our own.

CHAIR FERRERAS-COPELAND: Right, I think this formal process would be great and do you see that there is… you know obviously we had some resources to invest so that we could get to this point, if you were to undertake the housing component what would be a estimation, I don't want to hold you to this number but just as we start looking to the future and so we're able to share with members that are going to be joining this committee, the… you know the next committee chair on what the costs you think would be if you had to evaluate a housing expenditure and a business tax expenditure at the same time?

RONNIE LOWENSTEIN: I mean we've done these in the past… [cross-talk]

CHAIR FERRERAS-COPELAND: So, you need no money?

RONNIE LOWENSTEIN: Oh we always need money but the last few years IBO has actually been in an unusual position because are budget as you know is based on OMB's… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

RONNIE LOWENSTEIN: …and much of the funding for the hurricane Sandy repairs is flowed through OMB.

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

RONNIE LOWENSTEIN: So, we've had extraordinary surplus… [cross-talk]

CHAIR FERRERAS-COPELAND: But that will change in the future… [cross-talk]

RONNIE LOWENSTEIN: Absolutely… [cross-talk]

CHAIR FERRERAS-COPELAND: Right, expand and repairs… [cross-talk]

RONNIE LOWENSTEIN: …it will change… [cross-talk]

CHAIR FERRERAS-COPELAND: …are kind of slow… coming… [cross-talk]

RONNIE LOWENSTEIN: …slowly… yeah, we're… [cross-talk]

CHAIR FERRERAS-COPELAND: …to an end… [cross-talk]

RONNIE LOWENSTEIN: …very… ending and so constraints that… I mean it was not even remotely a constraint this year going ahead if we were to be running multiple evaluation programs, yeah, we would need to add staff and we… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

RONNIE LOWENSTEIN: …might need assistance on doing that… [cross-talk]

CHAIR FERRERAS-COPELAND: Okay… [cross-talk]

RONNIE LOWENSTEIN: But happily until now it has not been a problem.

CHAIR FERRERAS-COPELAND: Okay and do you have any recommendations on which expenditures should be evaluated next, I know you stated that, that we should be working on a list so that… for the… from the data perspective but is there anything that you have, having done all the work that you've done for all these years is there any, you know top three that you think we should be looking at?

GEORGE SWEETING: Staying on… I'm, I'm assuming you, you're… you mean if we keep with the current definition of economic development… [cross-talk]

CHAIR FERRERAS-COPELAND: Right… [cross-talk]

GEORGE SWEETING: …tax expenditure so… okay, so when in there, there are a number of… you know if, if you think about it sort of from the size of the program perspective, I mean one of the biggest is ICAP, now the, the council finance committee did a… you know a very effective study on that just a year or two ago so although that certainly qualify… I mean I could… I could see why you might look there first, I think we… you know that… there's an inefficiency there if you… if we, we made that our,

our next objective. I think some of the other business tax ones are focused fairly tightly on a handful of buildings, you know there's Madison Square Garden but I'm not sure how much you… what, what there is to do whole years study around that, that particular kind of… [cross-talk]

CHAIR FERRERAS-COPELAND: You mean you don't need a whole year?

GEORGE SWEETING: Yeah, right… [cross-talk]

CHAIR FERRERAS-COPELAND: Okay, right.

GEORGE SWEETING: You know and, and similarly the… I mean I think the, the Chrysler building exemption is on the, the list, you know but maybe you'll roll a couple of them into one, but you know there's, there's at least one that comes to mind is, is the REAP program which would also be… you could be building off of some of the same data and some of the same focus that we've been putting into Lower Manhattan, the REAP program obviously is, you know is largely focused on Lower Manhattan. REAP would run into… immediately run into data problems because that's administered through the city's general corporation tax and I guess and also the unincorporated business tax but both of those taxes the legislation doesn't seem to allow any provision for sharing data in any way with, with us so that again the, the, the law would have to be changed in Albany, that's, that's the interpretation we've received from the Department of Finance.

CHAIR FERRERAS-COPELAND: Okay, so we're going to be looking at some opportunities that we can make some recommendations for our Albany legislative kind of response and in engaging, so I think that's great. We're going to now hear from Council Member Lander.

COUNCIL MEMBER LANDER: Thank you Madame Chair and especially to the staff and to the IBO. I, I am just getting here and I, I don't really have yet a lot of questions about this particular report but I just want to say one more time how grateful I am to you and to the staff for doing this process and promise that your colleagues after you're gone will not forget this task force and these annual reports and that it's incumbent on the council to really follow through on this legislation on these reports, its just… this is such a… so easy for government to not pay attention to things like this, its challenging to kind of pay enough attention, see what's working, see what's not working, have the discipline to do it. When times are good its especially easy, we'll see what happens. There's obvious reasons with the tax bill in particular, the fear that we're going to have to pay a lot more attention to things in the… in the years ahead so I'm grateful that we have this process in place and I look forward to continuing your legacy and continuing to push forward and make sure we pay attention and fight to get the changes that we… that we need based on the analysis that we've done under it so thank you.

CHAIR FERRERAS-COPELAND: Thank you Brad, I really appreciate it and I'm sure that the, the Division Staff is also very grateful to know that they have an advocate in you. I really appreciate it, I, I'm, I'm excited for the future, I think we have a great opportunity to save our city some money but also create tax expenditures that generate exactly what the goals are. I think we've already are able… you know we've already made history by creating this, so I thank you for your partnership, I thank the Department of Finance for their continued support and

I'm looking forward to watching you all from Maryland and see… that was really funny, huh? Yeah. Thank you so much for all your time and I officially call my last oversight hearing adjourned.

[gavel]

C E R T I F I C A T E

World Wide Dictation certifies that the foregoing transcript is a true and accurate record of the proceedings. We further certify that there is no relation to any of the parties to this action by blood or marriage, and that there is interest in the outcome of this matter.

Date January 12, 2018