Letter of Comment No. 276
File Reference No. 19-20E
Date Received: 1/30/2015

F I S C A L   P O L I C Y   I N S T I T U T E
ONE LEAR JET LANE / LATHAM, NEW YORK 12110 / (518) 786-3156
11 PARK PLACE / NEW YORK, NY 10007 / (212) 721-5624

January 30, 2015

Sent via email to: director@gasb.org

Mr. David R. Bean, CPA
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7,
PO Box 5116,
Norwalk, CT 06856-5116

Re: Proposed Statement on Tax Abatement Disclosures - Project No. 19-20E

Dear Mr. Bean:

I am the Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). Our Executive Director, Ron Deutsch, was a co-signer on behalf of FPI of Comments No. 120 and No. 231 on this matter. I associate myself with both of those comments, and would like to provide supplementary comments based on my nearly 25 years of experience working on New York City and State economic, fiscal and tax policy issues.

I have worked extensively on New York City and State budget and tax policy issues for the past 17 years at the Fiscal Policy Institute, and before that for five years at the Office of the State Deputy Comptroller for New York City. In 2012-2013, I served on Governor Cuomo's Tax Reform and Fairness Commission, and I currently serve on the Tax Policy Advisory Board for the New York City Finance Commissioner, and on the City Council Task Force on Business Tax Expenditures. FPI recently released a comprehensive analysis of New York City taxes that I prepared, New York City Taxes—Trends, Impact and Priorities for Reform.

1—On the issue of performance-based credits (Paragraph B8), I draw your attention to an analysis of New York State's business tax credits by economists Marilyn Rubin and Donald Boyd that was prepared for the Governor's Tax Reform and Fairness Commission. In an extensive section on New York's film credit, the authors note that the chairman of Steiner Studios in Brooklyn, New York, "helped design the film production credit."[1]

2—While New York City's Industrial and Commercial Incentive Program (revised in 2008 to be the Industrial and Commercial Abatement Program) is an as-of-right exemption program, I firmly believe its past and projected costs should be disclosed in the City's Comprehensive Annual Financial Report (CAFR). It costs the City roughly $700 million annually, and its cost rises with property values. Commercial property market values increased by nearly eight percent according to the City's most recent property tax assessment. Since the late 1990s, the annual costs of the ICIP have grown much faster than the City tax base.

3—New York City is exposed to substantial, yet poorly understood foregone property taxes through a Uniform Tax Exemption Policy (UTEP) for the Hudson Yards district in West Midtown. Under the UTEP, the City receives PILOT payments from developers in Hudson Yards. However, the PILOTs are based on a complicated schedule of property tax discounts with a guaranteed three percent annual escalation factor for extended periods. The Hudson Yards tax breaks are poorly understood by most policy makers and budget analysts in New York City. Their potential cost only became glimpsed recently in connection with a request by JPMorgan Chase for additional City subsidies beyond the UTEP property tax breaks. In a New York Times article, the City reported the bank would get $600 million under the Hudson Yards tax breaks.[2] There had never previously been a public statement indicating the magnitude of the cost of those tax breaks. It should also be noted that the City's Industrial Development Agency is authorized to enter into 99-year PILOT agreements for Hudson Yards under the UTEP.

4—In my recent New York City tax report, I noted that the combined foregone tax value of the full range of business tax breaks costs the City nearly $3 billion annually, and that value has increased twice as fast as the City's tax base since 2001. The Rubin and Boyd report notes that the value of New York State business tax credits, most of which are refundable, has tripled over the past decade. These business tax expenditures are a growing budget issue for both the City and the State and yet there is next to no discussion of this issue at present in either CAFR.

5—In our deliberations in the 2012-2013 Governor's Tax Commission, we devoted considerable discussion to the issue of New York's burgeoning array of business tax credits, how they were widely deemed to be wasteful, and that the practice of granting them needs to be taken out of the hands of politicians. The fullest financial disclosure would help. From a business point of view, it would be much better to minimize tax credits to individual firms, and keep the tax base broad in order to lower tax rates. There was very strong support within commission on this issue.

[1] Marilyn M. Rubin and Donald J. Boyd, ***New York State Business Tax Credits: Analysis and Evaluation, A Report Prepared for the New York State Tax Reform and Fairness Commission***, November, 2013, p. 74.
[2] Charles V. Bagli, "JPMorgan Chase Seeks Incentives to Build New Headquarters in Manhattan," ***The New York Times***, October 17, 2014.

Letter of Comment No. 276
File Reference No. 19-20E
Date Received: 1/30/2015

Thank you for the opportunity to submit comments.

Sincerely,

James A. Parrott, PhD.
Deputy Director and Chief Economist