New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2017

Estimated Cost to New York City of Governor Cuomo's Proposed Affordable New York Housing Program

Governor Cuomo's executive budget, released in January, includes a proposed replacement for the defunct 421-a program, a contentious property tax exemption aimed at encouraging construction of new multifamily housing. The proposal was introduced shortly before the Mayor's preliminary budget and therefore is not reflected in the de Blasio Administration's budget estimates. Given its inclusion in the state budget, however, it is likely to be a major factor in the state budget negotiations.[1] IBO estimates that if enacted, the new program would eventually add roughly $120 million annually—or $1.2 billion over 10 years—to the cost of the previous version of 421-a that lapsed at the end of 2015.

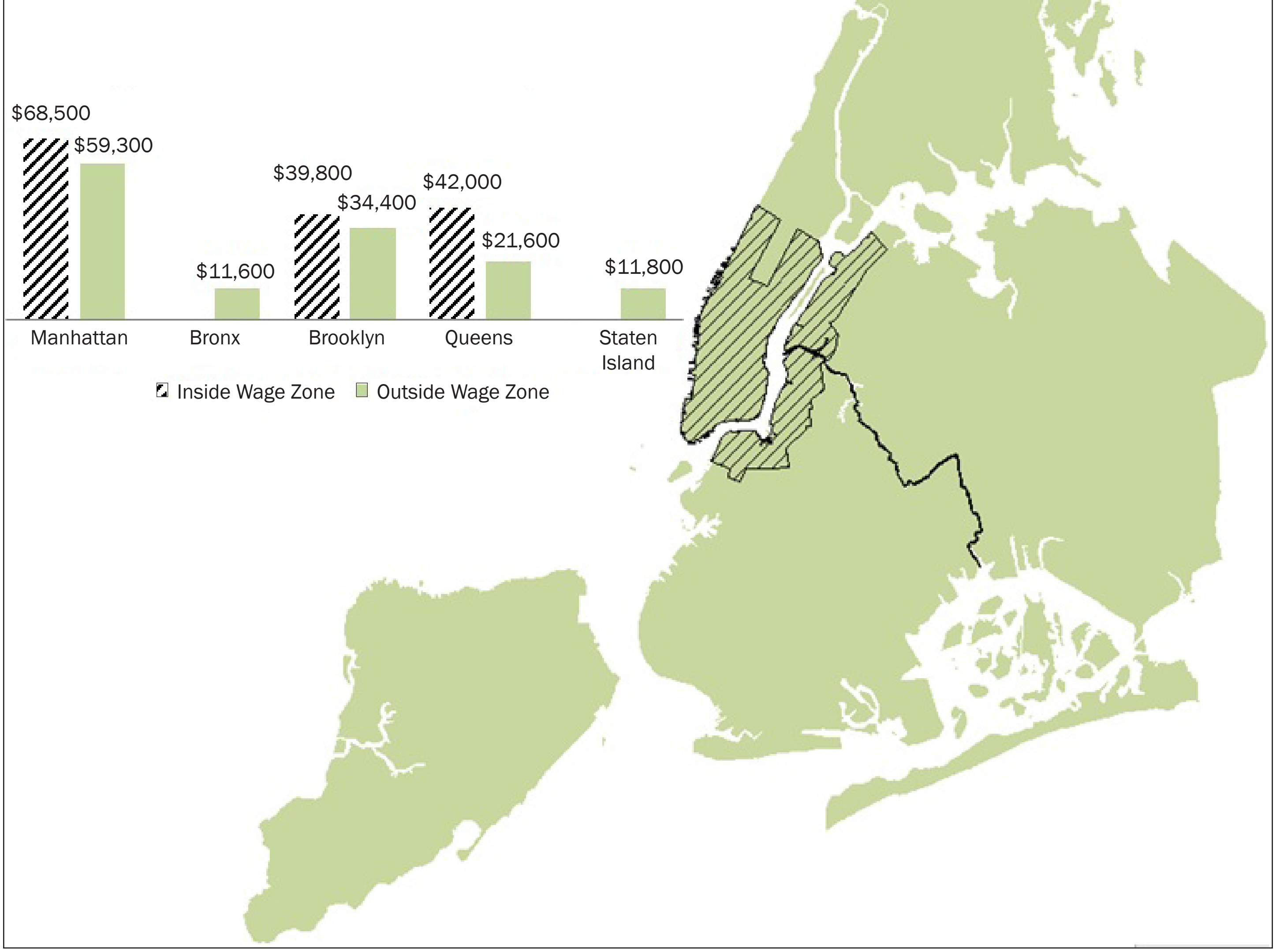
The Governor's replacement program is called the Affordable New York Housing Program (ANYHP), and it is built off of 421-a reform legislation signed into law in the summer of 2015. The 2015 legislation never took effect because representatives of the real estate industry and the construction trades were unable to reach an accord—required under the legislation—on wage rates paid to construction workers on 421-a projects. The Governor's January proposal follows months of negotiation among the same parties that resulted in agreement on average wage rates for construction workers on 421-a rental projects with 300 or more apartments in certain parts of the city. In Manhattan, developers with such projects south of 96th Street will be required to pay an average wage of $60 per hour whereas developers with such projects located in certain areas of Community Districts 1 and 2 in Brooklyn and Queens must pay on average $45 per hour.

Enhanced Tax Breaks. The Governor's proposal calls for an enhanced 35-year tax-benefit period in which the full value of the new residential construction or residential conversion is exempt from the property tax for qualifying developments in the special wage areas. Outside of the wage areas, rental projects eligible for the property tax exemption will receive a 35-year tax benefit, but only the first 25 years are a 100 percent exemption of post-construction value; the remaining 10 years are a 25 percent exemption. Rental projects outside the wage areas would be required to remain rent stabilized for 35 years, the same affordability period under the 2015 legislation, whereas those inside the wage area would be rent stabilized for 40 years. The Governor's proposal also allows projects that are not located in the special wage zones that would otherwise be eligible for the enhanced tax break to opt into the enhanced benefit program by agreeing to pay the Brooklyn/Queens average wage rate for construction workers. Condo projects outside of Manhattan with 6 to 35 apartments are also eligible for a 20-year tax benefit in which the first 14 years are a 100 percent exemption and the final 6 years are a 25 percent exemption.

Compared with the law enacted in June 2015, IBO estimates ANYHP will cost about $1,400 more per apartment per year. The increase in the cost per apartment year results from the additional years of full exemption for qualified projects in the wage zone as well as the proposal to allow projects outside the wage zone the opportunity to receive the enhanced tax break. If the opt-in element of the proposal were eliminated, IBO estimates the cost differential per apartment per year would fall to $660.

Comparative Costs. Based upon housing production estimates generated by the de Blasio Administration, our estimated cost differential per apartment per year implies that ANYHP as proposed by the Governor would cost the city $8.4 billion in property tax revenue over the next

Estimated Average Tax Expenditure per Apartment Under the Governor's Proposal



10 years. For comparison, IBO previously estimated the 10-year cost of Mayor de Blasio's original 421-a reform, which excluded condos, to be $6.1 billion, and we further estimated that the 421-a reform enacted into law in June 2015, which included small condo buildings, would cost $7.2 billion. Therefore, compared with the revised 421-a program lawmakers allowed to lapse, the Governor's proposal is about $1.2 billion more expensive, a difference of about $120 million a year on average.[2]

Based upon a historical analysis of 421-a property tax expenditures inside and outside the wage zones, IBO estimates the average cost to taxpayers to subsidize one apartment over the 35-year tax benefit period proposed by the Governor will vary across the city. In Manhattan, the city will spend about $68,500 per apartment within the wage zone compared with $59,300 per apartment outside of it. A similar pattern emerges in Brooklyn and Queens, where the per apartment tax expenditure inside each borough's respective wage zone exceed the average in the borough outside.

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Endnotes

[1]The Governor embedded the new legislative language in his package of budget bills, although a New York City property tax provision has little connection to the state budget.

[2]Our estimate assumes that tax expenditures grow over time at an average real rate of 3.7 percent annually and that future tax savings are discounted at 4.0 percent. An alternative discount rate commonly used is 6.0 percent. At this discount rate, the estimated cost differential per apartment per year is $850, and the total cost of the Governor's proposal is $8.0 billion. With a 6.0 percent discount rate, IBO's estimate of the total cost of the enacted June 2015 421-a legislation is $6.8 billion.

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