

Economic Development Tax Expenditure Evaluation:  
**IDA's Industrial Program**

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# Industrial Program Overview

- Tax incentives to lower the cost of constructing, renovating and owning industrial facilities.
- Cost \$31.5 million in fiscal year 2019.
- 200 projects benefitting in fiscal year 2019.

# Program Creation

- IDA Straight Lease Program
- 1995 - New Initiatives to Provide Benefits to Small and Medium Businesses
  - “... small businesses are the major job generator in the current economic recovery... Small businesses face a problem – that of capital availability...we are leveraging City dollars with those of private partners to create the best financial situation for the small business sector.”  
– *Clay Lifflander, president EDC and chairman IDA.*

Archives of the Mayor’s Press Office. “Mayor Giuliani Announces New EDC Initiatives to Help Small Business in New York City.” February 28, 1995.

# Program Goals

- **From Announcement of Program (1995):**
  - To promote and assist private sector industrial development, and
  - Thereby advance job opportunities and economic welfare to the people of New York City.
- **From Current UTEP (2017) :**
  - Recognizes the importance of the industrial sector by virtue of the sector's ability to create living wage job opportunities.
  - By preserving, enhancing and building industrial space, the Agency can: diversify the City's economy; support advanced manufacturers; incentivize and spark innovation; and create pathways to the middle class for City residents; with the goal of maximizing job creation relative to the amount of financial assistance provided.

# Program Eligibility

- Acquisition, construction, and/or substantial rehab of facilities.
- Manufacturing, assembling, processing, warehousing, recycling, disposing, and/or distributing of tangible property; and/or the creation of intangible asset (patent, copyright, formula, etc.).
- Developers of industrial space allowed.
- Minimum capital investment.

# How it Works

- Must Apply
  - Consultant
  - Inducement + capital investment + job goal + industry + cost-benefit analysis
- Program Benefits...
  - Sales tax exemption on construction materials (1-2 years)
  - Property tax savings through discounted payments in lieu of tax (25 years)
  - Waiver of mortgage recording tax (largely one-time)
- ...With strings
  - Recapture – first 10 years of benefit
  - Compliance and reporting

# Data and Methodology

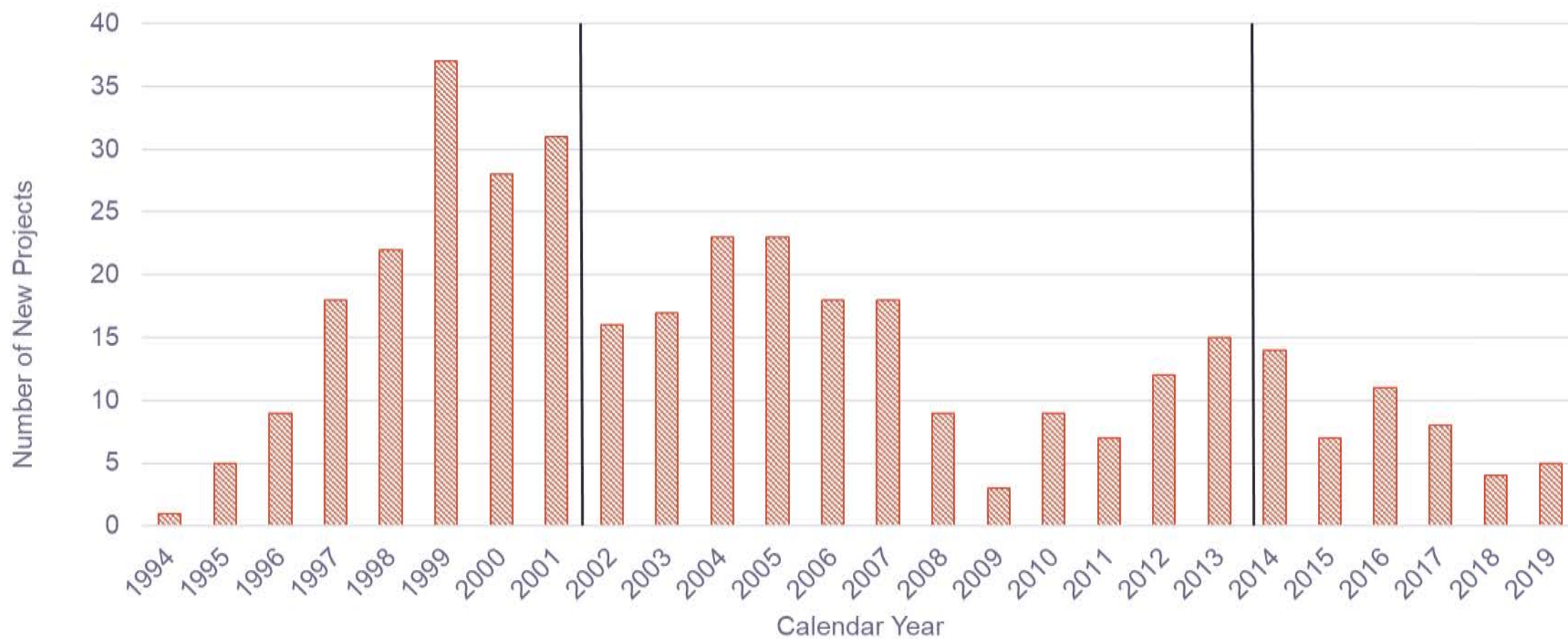
- Sources: IDA, Quarterly Census of Employment and Wages (2000-2018), Finance Department
- Track employment and wages before and after receiving benefit.
  - Compare with stated employment goals at application.
  - Compare program beneficiaries with industry trends.
- How much are firms investing and where?
- At what cost to the city?

# Program Participation

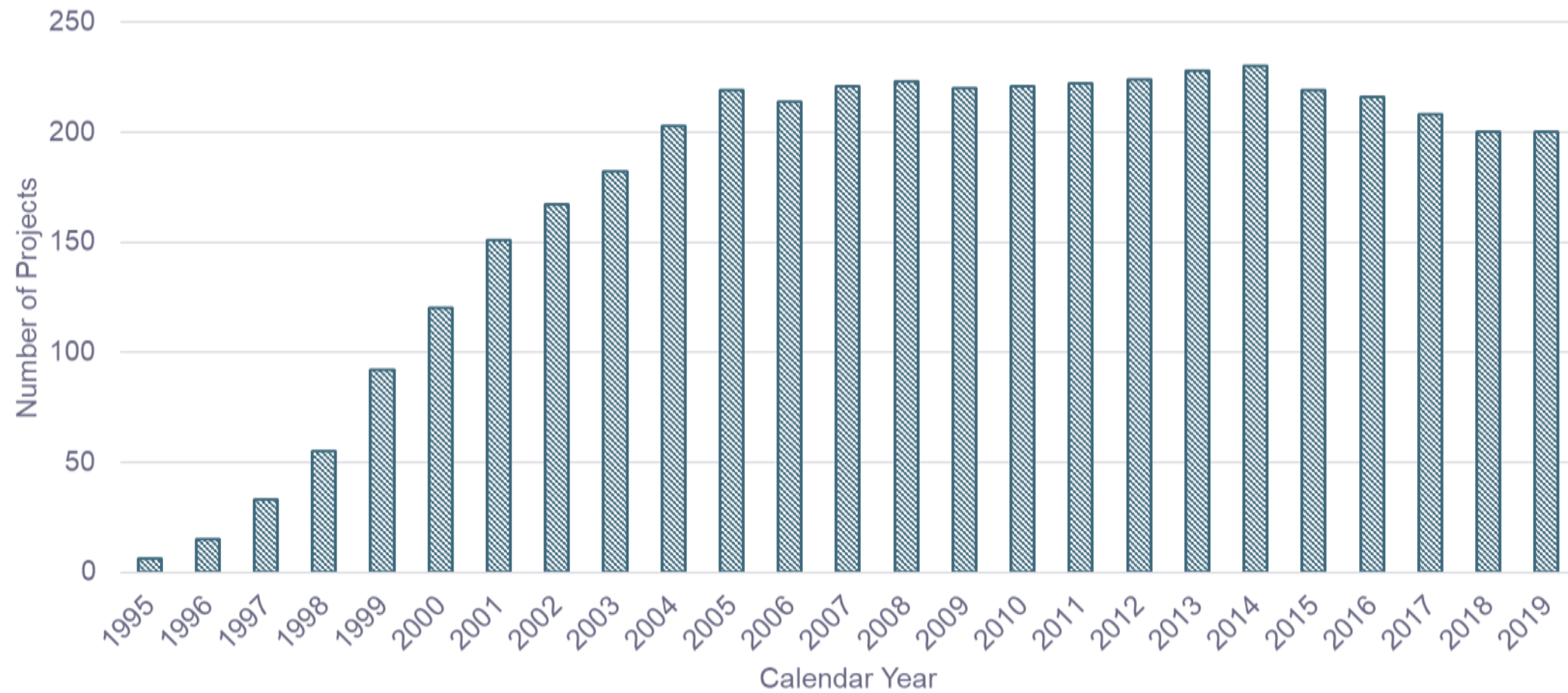
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# Fewer Projects Entering Program in Recent Years



# 200 Projects Receiving Benefits in 2019



## Many Projects Terminate Before Maturity

Projects Terminated Early	Count of Projects	Share of All Projects	Average Years to Termination
Recapture	69	19%	7
No Recapture	85	23%	13
<b>Total</b>	<b>154</b>	<b>42%</b>	<b>10.0</b>

# Reason for Recapture

Reason for Recapture	Number of Projects
Sold Location	20
Failure to Complete Project	9
Ceased Operations	8
Over Subleasing	7
Project Location Not Used for Intended Purpose	6
Relocation of employees out of NYC	3
No Information for Reason	16
<b>Total</b>	<b>69</b>

# Evaluation Findings

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# Most Firms Small, Already Doing Business in NYC

Size at Project Start	Average # Employees	Median # Employees
All Projects	154	34

Firm Size at Project Start	Number of Projects	Share of Total
Fewer than 20 Employees	51	22.1%
20 to 99 Employees	131	56.7%
100 to 499 Employees	35	15.1%
500 or More Employees	14	6.1%
<b>Total</b>	<b>231</b>	<b>100%</b>

# Most Firms Expanding Before Benefit

Average Annual Employment Change 3 Years Before Assistance	Number of Projects	Share of Total
Expanding (>3% growth)	89	61.4%
Stable (-3% loss to 3% growth)	32	16.5%
Contracting (<-3% loss or more)	24	22.1%
<b>TOTAL</b>	<b>145</b>	<b>100%</b>

## Just Over Half of Projects Expanded Post-Assistance

Employment Change Project Start to 3 Years After Completion	# Projects	% Projects	Average Jobs +/-	Median Jobs +/-
Expanded (>3% growth)	69	53.9%	32	9
Stable (-3% loss to 3% growth)	11	8.6%	0	0
Contracted (<-3% loss or more)	48	37.5%	-34	-11
<b>Total</b>	<b>128</b>	<b>100%</b>		

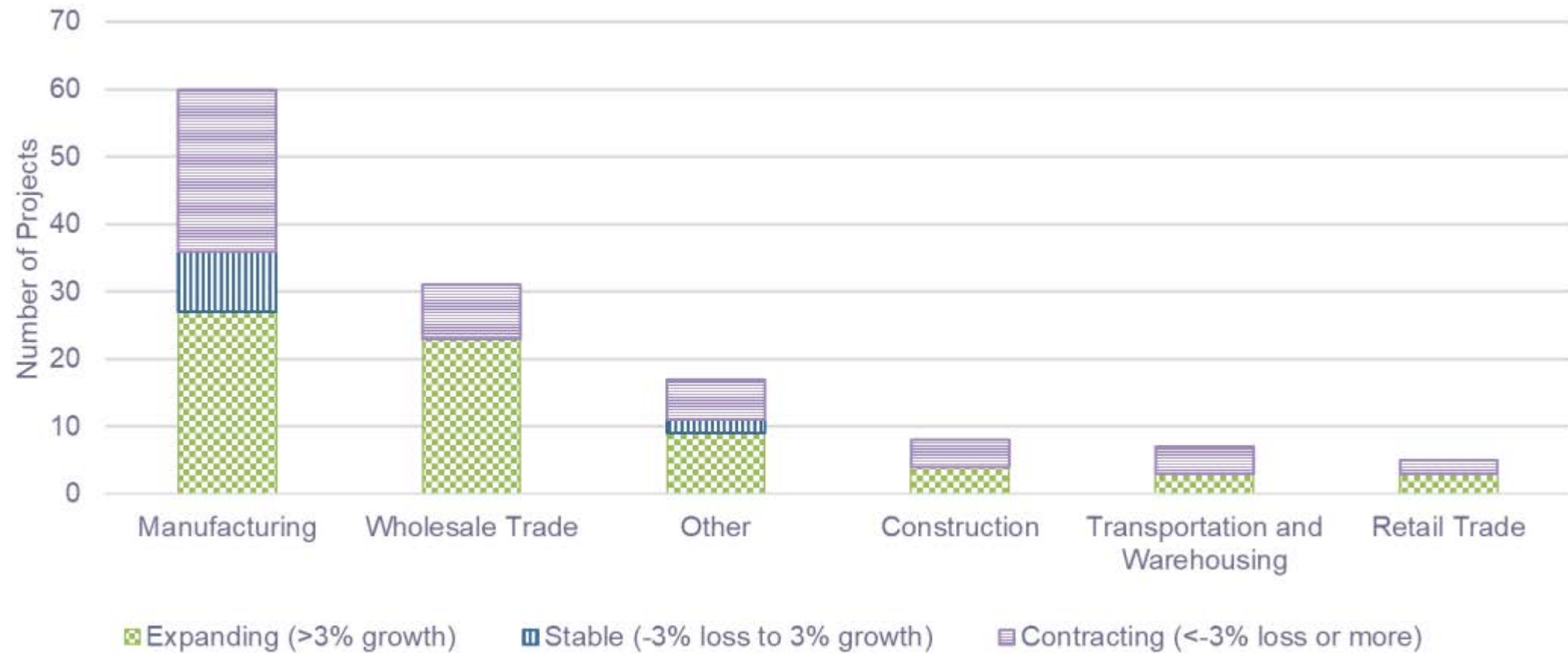


# About 1/3 Met Goal After Three Years Complete

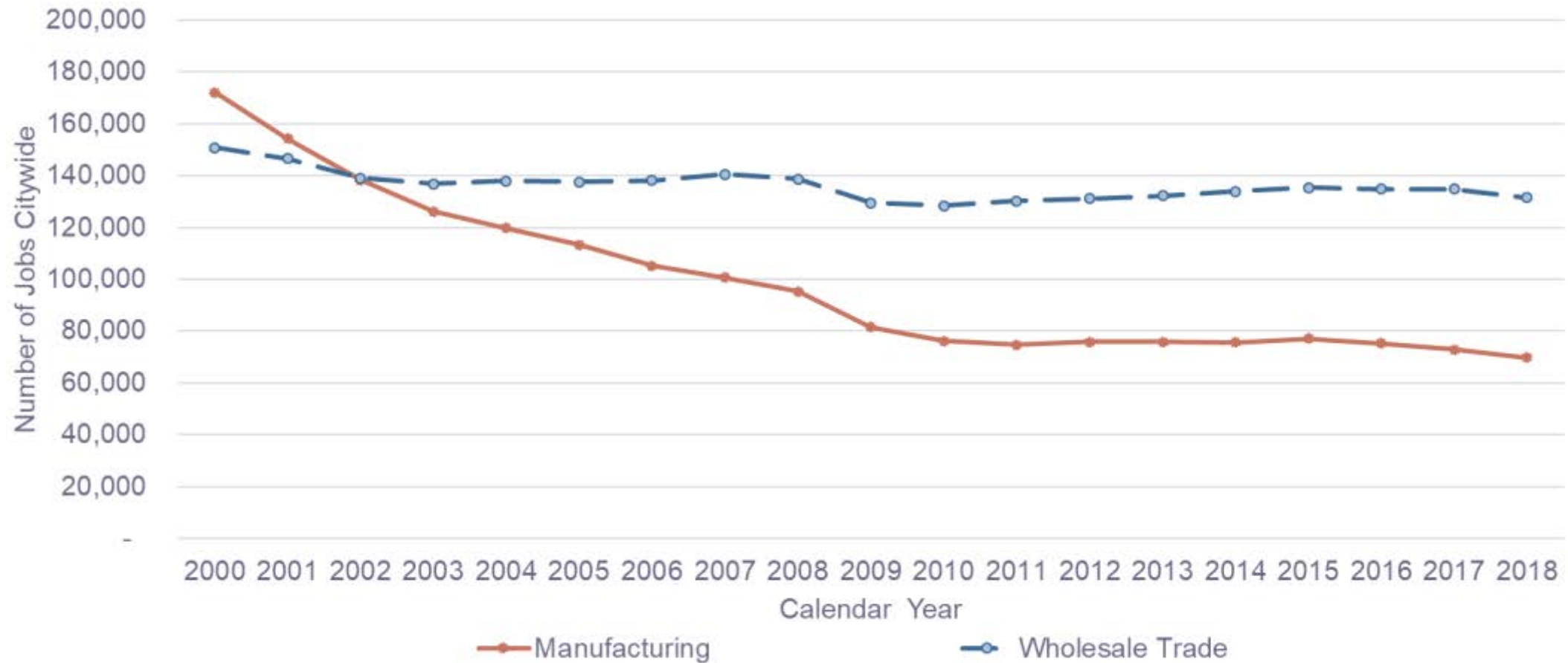
- Average 3-year job creation goal at application is 22 jobs.

	Three Years After Completion
<b>Share Met or Exceeded Goal</b>	32.0%

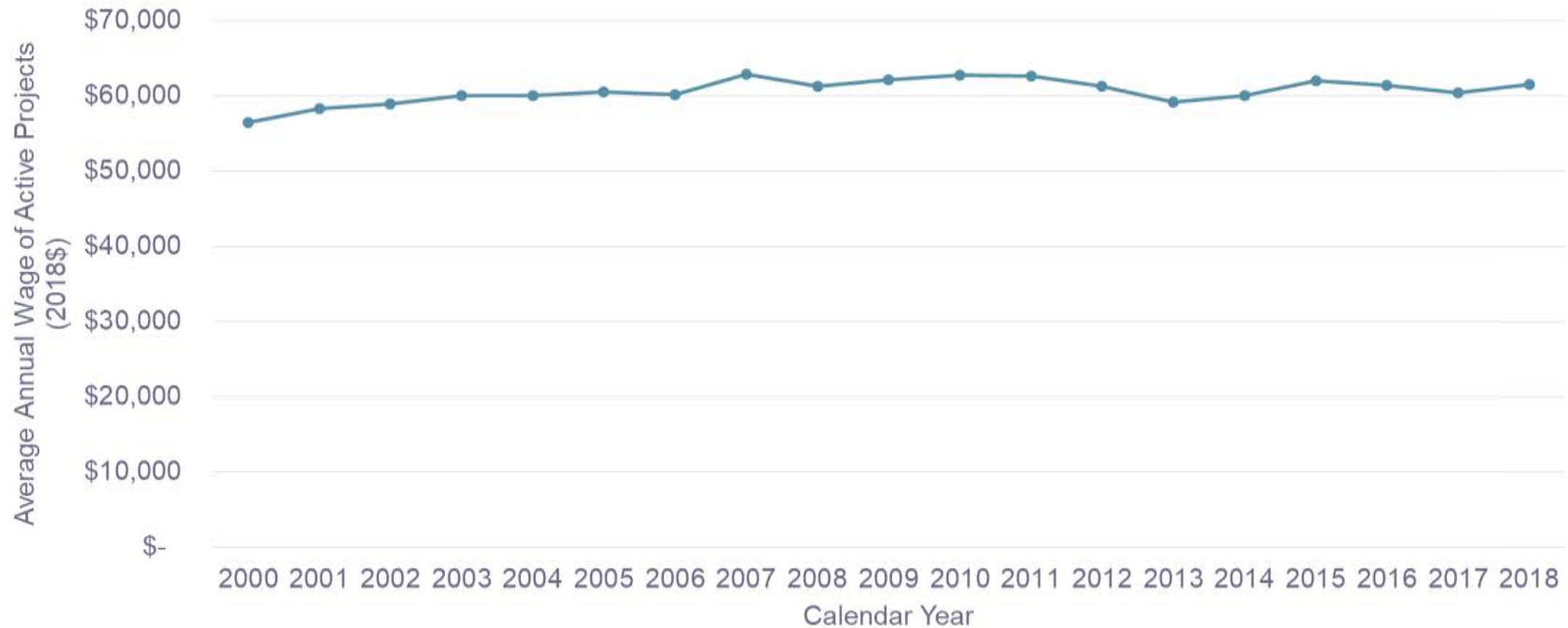
# Wholesale Trade Firms, Greatest Share Expanding



# Citywide Manufacturing and Wholesale Trade Employment Contract During Study Period



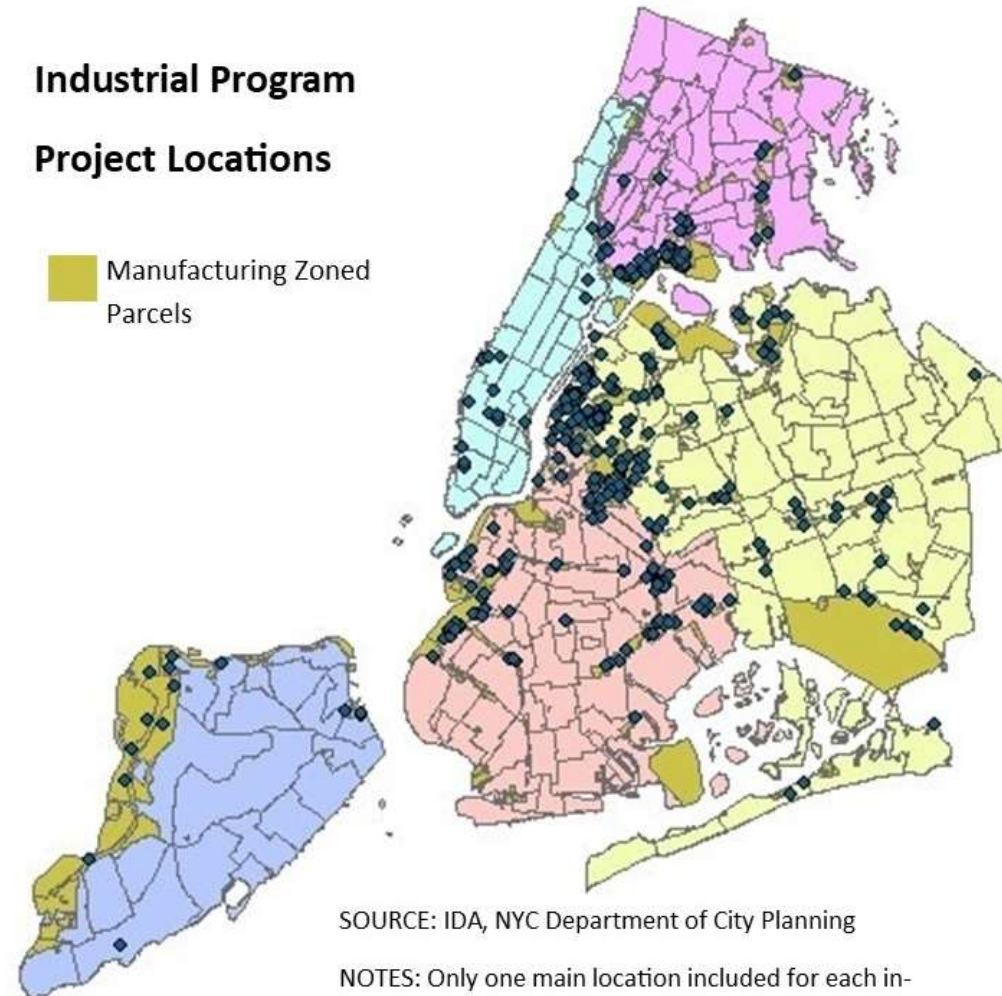
# Average Wage for Project Firms After Assistance



## Within Sectors, Average Project Wage Often Lower than Sector Average



# Most Projects in Industrial Areas of Queens & Brooklyn



SOURCE: IDA, NYC Department of City Planning

NOTES: Only one main location included for each industrial project

# Majority are Factory and Warehouse Sites

- Building Use at Start
  - Factory – 45%
  - Warehouses - 31%
  - Vacant – 8%
  - Parking/Auto Garages – 6%
  - Other – 10%
- 19% changed use – mostly among the above uses.

# Program Resulted in More Than \$3.1 Billion Investment

Capital Investment		
Average	Median	N
\$9.5 million	\$1.1 million	327

Exclusive of acquisition costs.

Investment amount is missing for 43 projects, mainly that started from 1995-2004.

Costs adjusted to 2019 dollars.



# Program Cost

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# Property Tax Greatest Share of Expenditure



NOTES: DOF records were missing about 20 percent of the PILOT amount data each year for 2000 to 2005. Therefore, property tax savings in those years are understated. Totals are net estimated ICIP benefit if applicable.

# Payment in Lieu of Property Taxes (Pilot)

- Land Pilot
- Project Improvements Pilot
- Additional Improvements Pilot (if applicable)
- Subtenant Pilot (if applicable)

# Conclusions and Future Research

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# Summary of Evaluation Findings

- Is program meeting its goal to create living wage jobs in New York City?
  - 54 percent of firms expanded three years after completion compared to project start. Another 9 percent stable.
    - Of those expanding, about 41 percent failed to meet their goal.
  - Main sectors served by program contracting during the study period.
  - Most participants expanding *before* assistance.
  - Average wage of project firms can be lower than sector average, but still a living/"good" wage.
- Is it helping to diversify the city economy and preserve industrial space?
  - Fewer firms participating in recent years.

# Relevant? Align With Current Policy Goals?

- Industrial sector more stable, but still fewer jobs.
- Increasing competition for industrial spaces.
- Industrial jobs pay a higher wage, on average, than retail, leisure and hospitality, and education and health sectors.
- 10 Point Industrial Action Plan + New York Works Plan

# Recommendations for Data Collection

- Collect data on eligible firms that do not apply.
- Provide data on actual project costs.
- Reporting of Pilots billed and paid through DOF data systems.
- Access to business tax records.
  - Legislation introduced.