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UPDATED

On the Far West Side:

City's Hudson Yards Interest Subsidies Reduced in Near Term, Yet Future Subsidies Remain

The executive budget reduces the amount the city plans to pay to cover interest costs of the Hudson Yards project over the next several years by \$121.1 million. The Hudson Yards Infrastructure Corporation (HYIC) collected higher than anticipated revenues from development this year—although still well-below initial forecasts—allowing the city to eliminate its \$58.1 million interest support payment planned for 2018 and reduce an \$89.8 million payment budgeted for 2019 to \$26.8 million. (The city had already eliminated interest support subsidies for 2016 and 2017 in prior financial plans.) Interest support payments made by the city to HYIC, however, have already exceeded amounts originally projected—and because the current savings result largely from one-time revenues, an \$89.8 million interest support payment remains in the city's financial plan for 2020. (All years refer to fiscal years.) The first of the new buildings in Hudson Yards is slated to open this week.

When the city created HYIC in 2005 to issue \$3 billion in bonds to pay for the 7-line extension and other infrastructure improvements on Manhattan's Far West Side to seed the private development expected to follow, the Mayor and City Council pledged that they would redirect both recurring tax revenue and one-time fees and bonus payments generated by new projects located in the area to repay the corporation's bonds. Understanding that it would take time before development revenue could cover the financing costs, the city also agreed to subsidize the corporation's interest payments until project revenue could fully support the costs.

Given the slower than anticipated pace of the project, partly due to the 2008-2009 recession, revenue from development collected by HYIC has fallen short of even the more conservative forecasts made when the initial

Budgeted Revenue of the Hudson Yards Infrastructure Corporation					
<i>Dollars in millions</i>					
	2017	2018	2019	2020	Total 2017-2020
Revenue From Development	\$63.8	\$63.8	\$63.8	\$63.8	\$255.2
District Improvement Bonus	-	-	-	-	-
Transferrable Development Rights	-	-	-	-	-
Payments in Lieu of Mortgage Recording Tax	-	-	-	-	-
Tax Equivalency Payments	59.3	59.3	59.3	59.3	237.2
Payments in Lieu of Taxes	4.5	4.5	4.5	4.5	18.0
Other Revenue	-	-	-	-	-
Total Revenue Before Interest Support Payments	\$63.8	\$63.8	\$63.8	\$63.8	\$255.2
Interest Support Payments	-	-	26.8	89.8	116.6
Total HYIC Revenue	\$63.8	\$63.8	90.6	153.6	371.8

SOURCES: Hudson Yards Infrastructure Corporation 2017 Budget and New York City 2017 Executive Budget
 NOTES: Years are city fiscal years. Other revenue is mainly investment earnings but also contains some nonrecurring application fees associated with payments in lieu of taxes. Tax equivalency payment revenue is based on city projections.

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bonds were issued. By the end of this year, HYIC tax and fee revenue collections since 2006 are expected to total \$845.5 million. Based on a planning study prepared by Cushman and Wakefield in 2006, the project was expected to generate from \$986.6 million to \$1.3 billion in HYIC development revenues through 2016—considerably above what it has actually generated. However, since 2006 HYIC has also collected \$266.1 million in other revenues—mainly interest earned on investments of its unused bond proceeds—which were not included in the initial forecasts. When included with the development revenue, this brings the actual revenue received by HYIC through 2016 to a total of \$1.1 billion, nearer to the low end of the Cushman and Wakefield forecast.

Despite these unexpected interest earnings, the city has still provided more in interest subsidies than originally forecast. Since 2006, the city has provided HYIC with \$358.8 million in interest support payments, with its most recent payment made in 2015. Interest support payments were initially expected to total between \$7.4 million (based on the planning study’s more optimistic revenue forecast) and \$205.3 million (using the study’s more conservative projection). While the lower level of interest support would

have required only one year of city subsidy, the higher level would have required subsidy payments each year from 2008 through 2014.

While revenues from development in Hudson Yards are picking up, they still fall short of initial projections and are largely in the form of one-time payments. As interest earnings on investments of unused bond proceeds have petered out, the city’s interest support payments—although reduced through 2019—are likely to continue in future years.

Increasing Development Revenue. HYIC receives two different kinds of development revenue. The first type is nonrecurring revenue and includes district improvement bonuses, the proceeds from the sale of development rights to developers at the time of construction, as well as payments in lieu of mortgage recording taxes when project financing is secured. The second type of revenue is recurring, annual property tax revenue (or the equivalent) paid by owners of new buildings in the Hudson Yards area. These come in two forms: payments in lieu of taxes for commercial office development collected by the city’s Industrial Development Agency and passed through to HYIC or tax equivalency payments for residential and

Actual Revenue of the Hudson Yards Infrastructure Corporation												
<i>Dollars in millions</i>												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total 2006-2016
Revenue from Development	\$11.1	\$62.9	\$8.6	\$12.3	\$13.3	\$30.6	\$30.6	\$47.0	\$63.3	\$336.4	\$229.4	\$845.5
District Improvement Bonuses	11.1	57.9	6.9	4.5	-	4.6	3.0	3.3	10.8	193.7	44.6	340.4
Transferrable Development Rights	-	-	-	-	-	-	-	-	-	90.1	99.2	189.3
Payments in Lieu of Mortgage Recording Tax	-	-	-	-	-	-	-	11.1	13.9	-	22.5	47.5
Tax Equivalency Payments	-	5.0	1.7	7.8	13.3	25.9	27.7	32.6	38.6	48.6	58.6	259.8
Payments in Lieu of Taxes	-	-	-	-	-	-	-	-	-	4.0	4.5	8.5
Other Revenues	0.1	43.3	127.3	57.6	20.0	2.6	1.4	4.9	3.4	5.6	0.0	266.1
Total Revenue Before Interest Support Payments	\$11.2	\$106.2	\$135.9	\$69.9	\$33.3	\$33.2	\$32.0	\$51.9	\$66.7	\$342.0	\$229.4	\$1,111.6
Interest Support Payments	-	-	-	-	15.0	42.7	79.3	155.6	38.1	28.0	-	358.8
Total HYIC Revenue	\$11.2	\$106.2	\$135.9	\$70.0	\$48.3	\$75.9	\$111.3	\$207.5	\$104.7	\$370.0	\$229.4	\$1,470.4
SOURCES: Hudson Yards Infrastructure Corporation Financial Statements, fiscal years 2006-2015; Hudson Yards Infrastructure Corporation 2017 Budget; New York City 2017 Executive Budget												
NOTES: Years are city fiscal years. 2006 through 2015 are actuals and 2016 is the projected amount. Other revenue is mainly investment earnings but also contains some nonrecurring application fees associated with payments in lieu of taxes. Interest support payments of \$15 million for 2010 were prepaid in 2009. Similarly, interest support payments totaling \$155.6 million for 2013 were prepaid in 2012.												

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hotel projects collected by the city and appropriated to HYIC by the City Council. (See IBO's [2013 report](#) for more information on these revenue sources.)

The majority of the corporation's development revenue received through 2016 results from the nonrecurring sources: \$577.2 million. While this has fallen short of even the low estimate of \$641.5 million of what the corporation would receive through 2016 in the Cushman and Wakefield study, much of the revenue has come in over the past two years, suggesting some acceleration in these revenue sources. The sale of district improvement fund bonuses (DIBs) is the corporation's largest revenue source to date. By the end of 2016, HYIC expects to have collected \$340.4 million in revenue from the sale of DIBs, which allow developers of commercial and residential properties to pay for additional density to maximize the development potential of their property. DIB revenue was highest in 2015 at \$193.7 million, with \$44.6 million in 2016. HYIC also collected \$189.3 million in proceeds from the sale of transferable development rights ("air rights") from the

Eastern Rail Yard in 2015 and 2016. Lastly, in terms of one-time payments, HYIC has also earned \$47.5 million in payments in lieu of mortgage recording tax since 2006, with \$22.5 million received this year.

Recurring tax revenues in the form of tax equivalency payments (TEPs) and payments in lieu of taxes (PILOTs) have accounted for only \$268.3 million of HYIC's development revenue since 2006. Initial projections forecast these tax revenues to range from \$345.1 million to \$500.0 million through 2016. Most of the tax revenue received thus far has come from TEPs, which—like the city's interest support payments—are paid out of the city's general fund. From 2006 through 2016, TEP revenue has totaled \$259.8 million, growing from \$5.0 million in 2007 to an expected \$58.6 million in 2016. HYIC received its first PILOT payment of \$4.0 million in 2015, increasing to \$4.5 million in 2016.

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