

City Support for the Industrial Sector

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June 2014



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Background

- The Bloomberg Administration completed two multiagency studies, in 2005 and 2011, on the challenges facing the city's industrial economy.
 - The city defines "industrial" as the construction, manufacturing, wholesale trade, transportation, and warehousing sectors.
- These reports led the city to propose new initiatives to address a variety of concerns, ranging from the supply of industrial real estate to the quality of the city's workforce.
- In this publication, done at the request of Council Member Brad Lander, we attempt to identify which of these initiatives were implemented and estimate their costs to the public.

Summary

- The city supports the industrial sector in three general ways:
 - Promoting industrial uses on city-owned land;
 - Encouraging private investment in industrial properties through loan and grant programs, tax incentives, and land use policy; and
 - Offering business services to make industrial businesses more competitive and developing workforce development strategies to connect qualified job seekers with industrial jobs.
- These programs draw on many of the city's budgetary powers:
 - Direct spending through the city's expense budget;
 - Commitments of city capital funds;
 - Off-budget spending by the New York City Economic Development Corporation (EDC) and the Brooklyn Navy Yard Development Corporation;
 - Discretionary financial assistance from the Industrial Development Agency (IDA); and
 - Tax expenditures through as-of-right and discretionary tax breaks.

Summary

- In inflation-adjusted terms, spending on business services and workforce development through the expense budget totaled \$69 million from 2002 through 2013. This does not include spending by EDC or the Brooklyn Navy Yard Development Corporation, which are not part of the city's budget.
- The city committed more than \$812 million in capital funds to the industrial sector over the 2002-2013 period, with the bulk spent on projects to upgrade and modernize city-owned industrial properties and wholesale food markets.
- Industrial businesses claimed as-of-right benefits worth several hundreds of millions of dollars, but it is difficult to give a precise total due to disclosure and privacy rules.
- Since 2002, the IDA has granted industrial businesses discretionary benefits that will ultimately cost the city \$135 million.
- Unless otherwise noted, all figures are reported in real 2013 dollars.

The majority of city capital funds committed to the industrial sector have gone towards modernizing city-owned sites. Comparatively little has been spent on nonprofit industrial landlords or for infrastructure in industrial districts not owned by the city.

City Capital Spending by Type of Project as of May 2014				
<i>2013 dollars in millions</i>				
Type of Project	Ownership	Actual (2002-2013)	Planned (2014-2022)	Total
Industrial Sites				
Brooklyn Navy Yard	Public	\$269.5	\$242.4	\$511.9
Brooklyn Army Terminal	Public	\$59.2	\$137.6	\$196.8
College Point Corporate Park	Public/Private	\$57.1	\$28.1	\$85.2
Greenpoint Manufacturing Design Center	Private, Nonprofit	\$5.5	\$9.9	\$15.5
EWVIDCO Acquisitions	Private, Nonprofit	\$6.7	\$3.3	\$10.0
Subtotal		\$398.0	\$421.3	\$819.2
Food Manufacturing and Distribution				
Fulton Fish Market Relocation	Public	\$118.3	\$0.0	\$118.3
Hunts Point Market	Public	\$64.3	\$58.0	\$122.3
Brooklyn Wholesale Meat Market	Public	\$4.6	\$0.0	\$4.6
La Marqueta - Kitchen Incubator	Public	\$1.6	\$0.0	\$1.6
Subtotal		\$188.8	\$58.0	\$246.8
Working Waterfront				
South Brooklyn Marine Terminal	Public	\$165.8	\$6.2	\$171.9
65th Street Rail Yard	Public	\$30.3	\$0.0	\$30.3
Bush Terminal	Private, For-Profit	\$21.2	\$10.5	\$31.7
Howland Hook/NY Container Port	Public	\$8.6	\$0.0	\$8.6
Subtotal		\$225.8	\$16.7	\$242.5
Miscellaneous				
Manufacturing and Industrial Investment Fund	Private	\$0.0	\$7.9	\$7.9
Port Morris CSX Bridge	Private	\$0.0	\$4.8	\$4.8
LIC Industrial Areas Road Work	Private	\$0.0	\$1.7	\$1.7
Subtotal		\$0.0	\$14.3	\$14.3
Total		\$812.6	\$510.4	\$1,322.9
SOURCE: IBO analysis of Financial Management System data				
NOTES: Day-to-day management of city-owned assets may be performed by third-party organizations; some sites are ground leased to private developers.				
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The majority of city expense budget spending went for training workers for manufacturing and transportation jobs through the Workforce1 Career Centers or to third-party nonprofits that offer business services in Industrial Business Zones (IBZs).

City Expense Budget Funding for Programs Relating to the Industrial Sector, 2003-2018			
<i>2013 dollars in millions</i>			
Budget Area	Years	Expenditures 2003-2013	Budget 2014-2018
Workforce1 Sector Strategy	2007-2017	\$27.8	\$20.8
In-Place Industrial Parks/Industrial Business Zones	2003-2014	\$24.6	\$1.7
Greenpoint/Williamsburg Relocation Fund	2003, 2006-2007	\$05.9	\$0.0
Garment Industry Development Corporation	2003-2009	\$3.9	\$0.0
Brooklyn Army Terminal Subsidies	2010-2017	\$2.3	\$2.4
Miscellaneous Grants	various years	\$2.3	\$0.0
Brooklyn Navy Yard Planning Study	2012	\$1.1	\$0.0
Mayor's Office of Industrial and Manufacturing Business	2009-2011	\$0.8	\$0.0
Fulton Fish Market Relocation Expenses	2003-2007	\$0.6	\$0.0
TOTAL		\$69.3	\$24.9
SOURCE: Office of Management and Budget			
NOTES: Funding for Industrial Business Zones has typically been extended on a year-by-year basis. Many functions of the Mayor's Office of Industrial and Manufacturing Business now merged into EDC.			
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Spending on business services is increasingly moving off-budget to the Economic Development Corporation and the Brooklyn Navy Yard Development Corporation, making information difficult to obtain.

- ❑ The minutes of EDC's board of directors meetings offer the only publicly available information on the organization's operating budget.
- ❑ Our review of minutes for the past two years identified four types of business service programs run by EDC.
 - ❑ *Loans and Grants*: Typically bridge or mezzanine financing for industrial projects to help developers fill gaps between project costs and the amount they can raise in the private debt and equity markets.
 - ❑ *Demonstration Projects*: Low-cost experiments run by third party organizations that target specific needs of individual industries. Typically referred to as "competitions."
 - ❑ *Improvement Funds*: Place-based funds that pay for property management and other services through assessments on properties in defined industrial districts.
 - ❑ *Pay-As-You-Go Financing/Asset Management*: Commitments of EDC funds for capital projects on top of the funds it receives through the city's capital budget. Often used to fund predevelopment work or maintenance/modernization projects at EDC-managed assets.

Examples of Off-Budget EDC Projects and Programs (1 of 2)

Type of Program	Description	Funding Commitments (in millions)	Funding Source
Loan and Grant Programs			
Industrial Development Program	City-funded revolving mezzanine loan fund for industrial projects, launched in 2011. Loans capped at greater of \$10 million or 50 percent of private financing. Originally intended for private projects on city-owned sites. Eligibility criteria later expanded to private sites. No loans made to date.	\$30.0-\$50.0	EDC
Food Manufacturers Fund	\$10 million credit facility for loans to established small- and medium-sized food manufacturers. \$9 million from Goldman Sachs, \$1 million from EDC. New York Business Development Corporation (NYBDC) underwrites loans and draws funds from the credit facility. Minimum loan size of \$500,000.	\$1.0	EDC
Fashion Manufacturing Investment Initiative	Financing program to stimulate growth in apparel manufacturing through upgrading of industrial equipment and networking/educational programming. Administered by Council of Fashion Designers of America.	\$1.0	EDC
Competitions			
ConnectNYC	Grant program to help small- and medium-sized businesses, particularly in Industrial Business Zones, improve physical broadband Internet infrastructure.	\$0.3	EDC
Industrial Business Growth Assistance Program	Business assistance program to help industrial firms develop and implement business plans that involve job growth. Currently in third phase.	\$0.2 - \$0.3 per phase	EDC, IDA
New York's Next Top Makers	Program to connect six emerging companies with the proto-typing, computer fabrication and 3D printing sector.	\$0.1	IDA
SOURCE: Various minutes of the board of directors, Economic Development Corporation			
<i>New York City Independent Budget Office</i>			

Examples of Off-Budget EDC Projects and Programs (2 of 2)

Type of Program	Description	Funding Commitments (in millions)	Funding Source
Area Improvement Funds			
Area Maintenance Program	Founded to fund maintenance in In-Place Industrial Parks, now expanded to cover IBZs and city-owned assets. Funds graffiti cleaning, painting, landscaping, etc.	\$4.2	City, EDC, Federal, Council, BPs
College Point Corporate Park Investment Fund	Funds operations and small capital projects in College Point Corporate Park. Deed covenants require property owners in park to contribute to the fund.	\$0.9	Special Assessments
Industrial Policy Program	Operating grant to NYBDC to fund business service programs in Industrial Business Zones. Funding is on top of city-funded IBZ program.	\$0.4	IDA
Industrial BIDs	Tentative funding for four industrial BIDs: Newtown Creek, Long Island City, Eastchester, and the West Shore of Staten Island.	\$0.3	IDA
Hunts Point Improvement Fund	Assessments on property in Hunts Point Food Distribution Center to fund maintenance work in the industrial park and open space in surrounding area.	unknown	Special Assessments
Pay-As-You-Go Capital and Predevelopment Funding			
Brooklyn Army Terminal	Various modernization projects to boilers, sewers, façades, elevators, etc.	\$10.0	EDC
Subdivision of Vacant Space at Brooklyn Army Terminal	Funded as amendment to facilities management/construction management contract. Phased project to subdivide a 300,000 square foot space at a cost of approximately \$32 per square foot.	\$9.6	EDC
Hunts Point Market Coop. Predevelopment Costs	Matching grant for predevelopment work related to proposed capital improvements to the produce market, contingent on agreement with Coop.	\$5.0	IDA
Taystee Create Renovation	Bridge loan offered as part of an incentive package for the renovation of the Taystee factory in Harlem into modern commercial and industrial building.	\$0.5	EDC
SOURCE: Various minutes of the board of directors, Economic Development Corporation			
<i>New York City Independent Budget Office</i>			

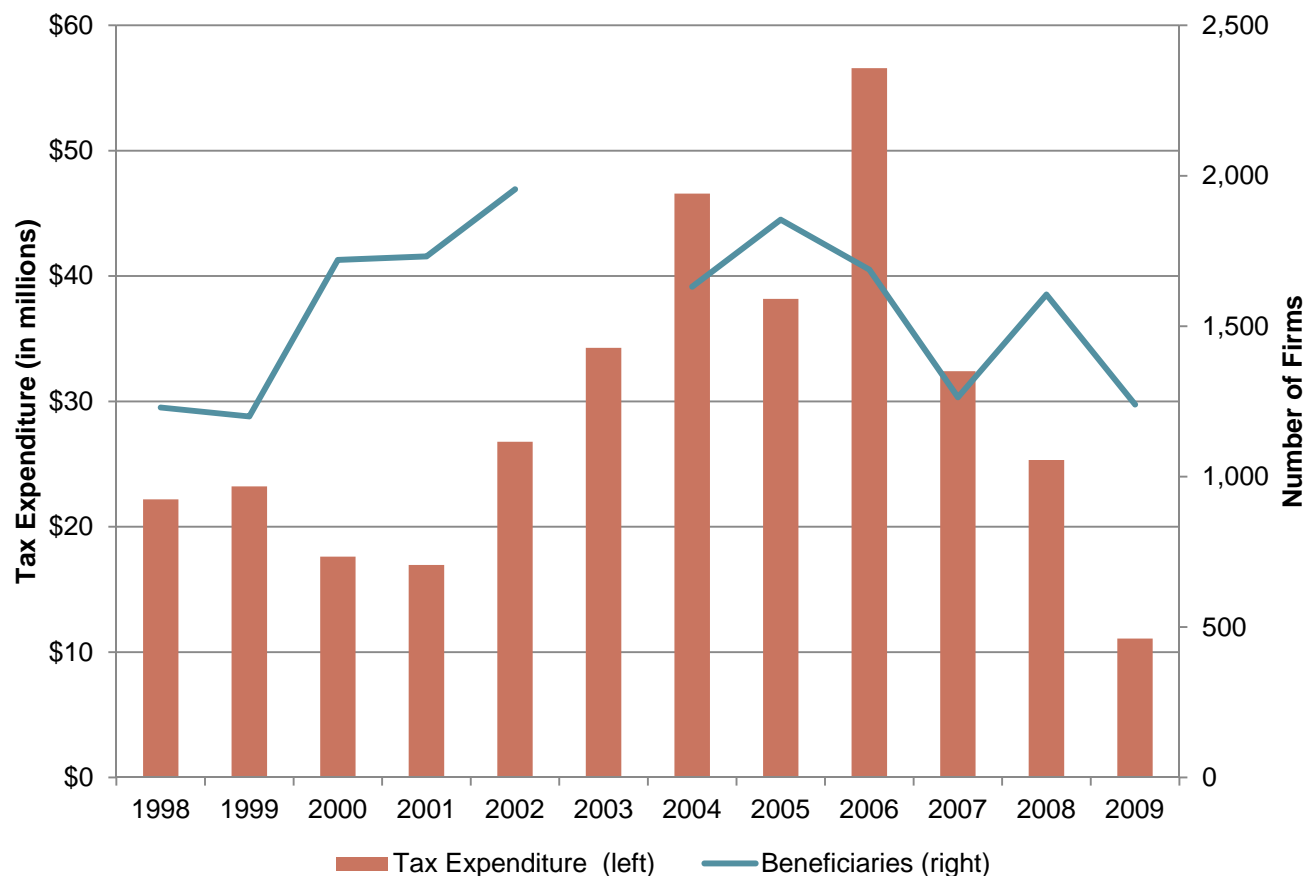
As-of-right tax incentives have a mixed record of success and may not be well-tailored to the needs of industrial businesses.

Tax Incentive	Description	Industrial Beneficiaries	Annual Cost (in millions) ¹
Specific to Industrial Businesses			
Double Weighting of Manufacturers' Receipts	Phased out after conversion to single sales factor. Allowed manufacturers to increase the weight of gross receipts compared with capital stock and headcount when allocating income to NYC for income tax purposes. Like single sales factor, benefited NYC-based firms that export outside the city.	1,240	\$11.1
Industrial Business Zone Tax Credit ²	One-time business tax credit of \$1,000 for each employee relocated to or within an IBZ, capped at \$100,000 per firm. Firms cannot receive both IBZ and REAP benefits.	Not Disclosed	Not Disclosed, <\$1
Garment Center Commercial Rent Tax Abatement ²	Commercial rent tax abatement for qualified manufacturers located in Manhattan's Garment Center.	Not Disclosed	Not Disclosed, <\$1
Manufacturing and Research R&D Property Depreciation ²	Business taxpayers can deduct double the permissible depreciation allowance for property used for manufacturing or research and development.	Not Disclosed	Not Disclosed, <\$1
Not Specific to Industrial Businesses			
Industrial and Commercial Incentive Program/Industrial and Commercial Abatement Program (ICIP/ICAP)	Sliding scale of property tax abatements or exemptions to offset the increase in assessed value resulting from qualified investments in commercial real estate.	1,402	\$65.2
Relocation and Employment Assistance Program (REAP)	Offers an annual \$3,000 business tax credit for 12 years for each full-time equivalent job relocated to Upper Manhattan, Lower Manhattan or one of the other four boroughs.	33	\$2.8
Energy Cost Savings Program (ECSP) ³	Discounted electric and natural gas rates for businesses locating outside midtown Manhattan that make qualified real property improvements.	N/A	N/A
Commercial Expansion Program (CEP) ³	Sliding scale of property tax abatements worth up to \$2.50 per square foot for businesses that make qualified investments in newly leased commercial spaces in targeted Commercial Expansion Areas. Term of benefits varies by use and location.	N/A	N/A

SOURCE: Department of Finance

NOTES: ¹Annual costs are based on the most recent year for which data is available; ICIP/ICAP data is from 2013, REAP is from 2007, and all others from 2009. All costs are adjusted for inflation. ²For each year that data is available from the department, the number of beneficiaries and the total tax expenditure for these programs has been too small to disclose. The Department of Finance does not disclose the value of incentives that cost the city less than \$1 million per year. As a result, there is no way to determine whether firms are taking advantage of these incentives. ³Finance does not break out data for the ECSP and CEP based on recipients' industrial classification, so it is not possible for IBO to determine the share of benefits that accrue to industrial firms. Citywide, across all industries, ECSP benefits were worth a total of \$30 million, while 808 firms claimed benefits through CEP worth \$14.1 million.

The ability to double weight gross receipts cumulatively saved manufacturers \$351 million (in 2013 dollars) from 1998 through 2009, an annual average of \$18,514 per firm. It is now being phased out because of the switch to single sales factor for all industries.



SOURCE: Department of Finance, Annual Report on Tax Expenditures (various years)
 NOTE: The number of beneficiaries in 2003 was not available.

ICIP/ICAP benefits are the largest annual tax expenditure on behalf of the industrial sector, though the majority of benefits flow to warehouses rather than factories or lofts.

- Benefits are offered to building owners and presumed to be passed through to tenants. We use the Department of Finance's building classification system to identify factories, warehouses, and lofts as a proxy for industrial businesses.
- ICIP stopped accepting new applications in 2011, at which point it was replaced by ICAP. The cost of ICAP is expected to grow over time.

2013 ICIP and ICAP Lots and Tax Expenditure by Property Type						
Property Type	ICIP Lots	ICAP Lots	ICIP Tax Expenditure	ICAP Tax Expenditure	Average ICIP Expenditure	Average ICAP Expenditure
Factory	462	13	\$15,982,805	\$315,957	\$34,595	\$24,304
Warehouse	856	27	\$40,981,386	\$574,209	\$47,875	\$21,267
Loft	43	1	\$7,265,158	\$66,789	\$168,957	\$66,789
Nonindustrial	5,690	96	\$600,234,898	\$5,803,260	\$105,489	\$60,451

SOURCE: IBO Analysis of Department of Finance data

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Businesses receive discretionary benefits from the city's Industrial Development Agency to offset some costs of development.

- Benefits include exemptions from the mortgage recording tax and sales tax on construction materials, abatements on energy taxes, or payments in lieu of taxes to reduce the property tax burdens. Some also received tax-exempt bond financing.
 - Assistance is estimated by EDC as the present value of all benefits projected over the life of the project.
- IBO reviewed each project to determine whether it should be classified as industrial. We reclassified some projects that EDC listed as industrial despite being nonindustrial in use, including passenger terminals at the city's airports or special purpose corporations owned by real estate developers. Conversely, we counted some projects as industrial, such as a warehouse owned by a retailer, that are industrial in use but owned by a company that is not classified as part of the industrial sector.

Discretionary Assistance from IDA						
<i>2013 dollars in thousands</i>						
Sector	Approved Before 2002			Approved 2002-2012		
	Projects	Total Asst.	Avg. Asst.	Projects	Total Asst.	Avg. Asst.
Industrial	110	\$150,230	\$1,366	130	\$135,398	\$1,042
Nonindustrial	125	\$727,262	\$5,818	203	\$366,243	\$1,804

SOURCE: IBO analysis of Economic Development Corporation data
 NOTE: IBO reviewed each project to determine whether it should be classified as industrial or non-industrial. We have chosen to reclassify some projects that EDC listed as industrial despite being primarily non-industrial in use, including passenger terminals at the city's airports or special purpose LLCs owned by real estate developers. Conversely, we included some projects as industrial, such as a warehouse owned by a retail chain, that are industrial in use but classified as non-industrial because they are owned by a company that is not part of the industrial sector.

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EDC often sells or leases city-owned property to industrial users, though it more frequently seeks out higher-value uses like housing, retail , or office projects to maximize value for the city.

City-Owned Properties Sold by EDC, 2005-2013			
Project	Borough	Type of Business	Amount
Nonindustrial (22 total projects)			\$261,061,684
Industrial			
NY Brush, LLC (Pepsi)	Bronx	Beverage Manufacturing (Pepsi)	\$4,250,000
Logan Property, Inc.	Queens	Ground Transportation (JFK)	\$3,834,460
Taystee Create, LLC	Manhattan	Food & Misc. Manufacturing	\$3,425,000
Vista Maro, LLC	Queens	Air Cargo (JFK)	\$2,254,244
Clarendon Holding Co., Inc. #5	Bronx	Ground Transportation	\$1,391,606
Generation Next Of Zerega, LLC	Bronx	Apparel Manufacturing, Wholesale	\$1,211,250
CJSA Realty LLC	Bronx	Ground Transportation	\$1,200,000
Skanska USA Civil Northeast Inc.	Queens	Construction	\$1,124,000
Goldex Limited	Brooklyn	Warehouse	\$1,030,000
Hinsdale Commercial Property, LLC	Brooklyn	Construction/Misc Light Industry	\$750,000
20 Rewe Street, LTD.	Brooklyn	Wholesale Trade, Durable Goods	\$407,664
Erma Realty, LLC #2	Brooklyn	Construction/Warehouse	\$275,000
Modi Realty Inc #1	Brooklyn	Fabricated Metal Manufacturing	\$275,000
Erma Realty, LLC #1	Brooklyn	Construction/Warehouse	\$210,000
ADD Holdings LLC	Brooklyn	Construction/Pipe Manufacturing	\$38,000
Industrial Subtotal			\$21,676,224
Total			\$282,737,908

SOURCE: Economic Development Corporation
New York City Independent Budget Office

EDC Lease Revenue, 2013	
Site	Revenue
Industrial Sites	\$29,238,521
Hunts Point Sites	\$19,050,483
South Brooklyn Marine Terminal	\$5,004,770
Howland Hook Terminal	\$3,377,053
Gansevoort Meat Market	\$1,254,215
NY Times College Point	\$552,000
Red Hook Terminal	\$0
Misc. Small Sites	\$1,056,832
Manufacturing	\$775,264
Ground Transportation	\$161,568
Construction	\$120,000
Nonindustrial (65 sites)	\$88,054,807
Total	\$118,350,160

SOURCE: Economic Development Corporation
New York City Independent Budget Office

NOTES: Tables do not reflect whether EDC provided the land or space for less than its appraised value. EDC's asset sale and lease documents only record the full value of the transaction, while its financial assistance databases do not provide information on projects that purchase or lease city-owned property at a discount. It also does not include rental income from the Navy Yard, which the Brooklyn Navy Yard Development Corporation reinvests within the industrial park. Land sales are reported in nominal dollars.