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Testimony of Ronnie Lowenstein

To the City Council Finance Committee

On the Financing of Hudson Yards

December 15, 2004

Good afternoon, Speaker Miller, Chairman Weprin and members of the Committee. I am Ronnie Lowenstein, director of the New York City Independent Budget Office. Thank you for the invitation to testify before you today on the proposed financing plan for Hudson Yards.

Last August, at the request of Public Advocate Betsy Gotbaum, we released a report examining the Hudson Yards financing plan. In that report we found that the Bloomberg Administration's plan for financing the city's infrastructure investment on the far West Side would cost $1.3 billion (26 percent) more than the if the city simply used its capital budget to borrow the funds for the project, would involve a problematic credit guarantee by the Transitional Finance Authority (TFA), and would sidestep the City Council's statutory role in the capital budget process.

The Hudson Yards plan proposes a major redevelopment of Manhattan's far West Side, with a city investment of $3 billion to upgrade the district and encourage the private development of millions of square feet of new office and other commercial space along with thousands of new apartments. The planned improvements include the extension of the #7 subway line, the construction of a platform over the Eastern Rail Yards, and the creation of new parkland.

To fund this investment, the Bloomberg Administration proposes a long-term financing plan outside the usual mechanism of the city's capital budget. Under the plan, a newly created Hudson Yards Infrastructure Corporation (HYIC) would sell long-term bonds backed by revenues the city expects the project to eventually generate. Because significant revenues from the project are not expected for about a decade, HYIC would use commercial paper—a form of short-term borrowing—to pay interest on the project bonds. Ultimately, the commercial paper would be retired using proceeds from the sale of additional long-term bonds.

The key findings of our report can be summarized as follows:

- IBO estimates that the proposed financing mechanism would cost $1.3 billion (in 2003 inflation-adjusted dollars) more than if the city simply borrowed the funds through its regular capital plan using General Obligation bond financing.

- In order to sell the commercial paper, the city would provide credit support through its Transitional Finance Authority. Thus, if investors are unwilling to buy more commercial paper, the TFA would buy it using city personal income tax revenues—funds that would otherwise support basic city services. Although it is unlikely that city income tax revenues would be tapped, the use of TFA to conditionally commit personal income tax revenues that normally flow to the general fund undermines the City Council's role in the expense budget appropriations process.

- Most Hudson Yards revenue expected in the first 20 years is tied to office development. If the demand for office space in Hudson Yards falls short of expectations or occurs more slowly than planned, more short-term borrowing would be necessary, borrowing costs would be greater, and the potential risk to the city's budget would grow.

- The choice is pay-now or pay-later. If the city chooses to pay now by financing the Hudson Yards improvements through the city's capital plan, the Bloomberg Administration and the Council would confront tradeoffs between these investments and other capital needs such as schools and housing. Moreover, we would have to begin paying debt service immediately through the city's operating budget.

- In contrast, if the city chooses to pay later by keeping the borrowing out of the capital plan, the city would not have to use its operating budget to pay debt service and the Hudson Yards investments would not compete with other projects in the capital plan. But because HYIC debt service costs in the future will be much higher than they would have been if the project were financed through the capital budget, the city will receive less in property tax revenues. In short, the pay-later option avoids tradeoffs today, but imposes even greater tradeoffs in the future.

Once again, thank you for the opportunity to testify, and I would be happy to take any questions you may have.