New York City Independent Budget Office

Fiscal Brief

November 2011

Who, What, Where, When?:

Tracking the City's Discretionary Economic Development Deals

Summary

Since fiscal year 1994, the city's Economic Development Corporation has been required to issue annual reports on the discretionary economic incentive deals it (and its related entities) make with businesses and nonprofit organizations to stay in, expand in, or relocate operations to New York City. At the request of Public Advocate Bill de Blasio, IBO has used the 17 reports published through January 2011 to create a database that allows us to look at the distribution of deals involving bond financing and other discretionary benefits across industries, boroughs, and Mayoral administrations.

We found that the number and inflation-adjusted dollar value of all projects started each year has generally been greater over the past decade than during the 1990s, although both the number and size of new projects declined sharply after 2007. For both measures, 2000 was the peak year. IBO's other findings include:

- Over half of the 1,098 projects are located in Brooklyn and Queens, and over a quarter are in Manhattan. Manufacturing accounts for a quarter of the projects—the most for any industry—and projects for education, health, and social service organizations comprise 24 percent.
- The dollar value of projects involving construction, manufacturing, and wholesale trade companies are on average the smallest, while information and financial services projects are by far the largest.
- Projects benefitting businesses found primarily in Manhattan in the finance, information, professional services, and company management sectors account for over half the value of all projects in all boroughs. Moreover, new projects in Manhattan account for at least half (and frequently far more) of the value of all projects begun in 11 out of the 23 fiscal years covered in the reports.
- The number of projects initiated each year and their aggregate value generally rose over time, with each peaking in 2000. Beginning in 1999, a change in the law that allowed the city to provide tax-exempt financing for not-for-profits led to an increase in the share of projects benefitting education, health, and social service organizations. The authority to undertake these projects ended in January 2008.
- Projects benefiting financial service and information firms accounted for the majority of the value of new projects in the Koch, Dinkins, and Giuliani Administrations, but under Mayor Bloomberg sports and recreation—in other words, stadiums—have been the leading beneficiaries.

The Economic Development Corporation reports enable us to develop important comparative information. But even with significant improvements in methodology in recent years, the reports do not provide all the data necessary to evaluate the city's job-creation and job-retention efforts in terms of cost per job or to determine the types of projects that create or retain the most employment.

Click here for more information on the law requiring economic development reporting @ www.ibo.nyc.ny.us

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Overview

The Economic Development Corporation (EDC) is a not-for-profit corporation under contract with New York City to provide a variety of economic development services including the granting of a various discretionary public-sector benefits to businesses and not-for-profit organizations in exchange for staying in, expanding in, or relocating to New York City. These benefits include tax-exempt bond financing, land sales and leases of city property, exemptions from mortgage recording and/or sales taxes, and payments in lieu of real property taxes (PILOTs), with the payment usually discounted from what the property tax would have been. EDC also staffs the New York City Industrial Development Agency (IDA) and the New York City Capital Resource Corporation (CRC), serving as a conduit for discretionary benefits that each entity is authorized to provide.[1] Although discretionary incentives granted by EDC have an impact on the city's budget and EDC testifies at City Council budget hearings, EDC is not a city government agency, and its budget is not subject to Council approval.[2]

With the goal of enabling the City Council and others to evaluate projects' fiscal impact and their effectiveness in creating and retaining jobs and stimulating economic activity, Local Law 69 (LL69) was enacted early in fiscal year 1994. The law required EDC to submit to the Council a report for each fiscal year detailing specific discretionary retention and job-creation deals. Each year's report is simply titled "The Local Law 69 Report."[3] The deals contained in the reports include projects undertaken by EDC on behalf of IDA or CRC. (In this brief, we refer to the deals included in the reports as "EDC projects" or simply "projects.") The first volume produced by EDC pursuant to Local Law 69 was for fiscal year 1994, covering projects begun in that year plus others initiated in the prior seven years.

Local Law 69 required EDC to report on all projects involving discretionary benefits where the total loan, grant, or tax benefits exceed $250,000, or where the sale and lease of land preserves or creates 25 or more jobs, for seven years after assistance begins. The law also specified the data for each project to be presented in each year's report, including: the name, location, and industry of the company or not-for-profit organization receiving benefits; the projected number of jobs to be created or retained by the project and the actual level of employment during the year; the types of assistance being provided; the cost to the city of providing assistance during the year and since the start of the project; the cumulative and year's fiscal benefit to the city from economic activity and tax revenue generated by the project; and the projected fiscal cost and benefit of the project for the remainder of the seven-year period.

The wealth of data presented in the Local Law 69 reports, unfortunately, did not allow researchers to estimate the fiscal cost to the city of retaining or creating jobs, to determine which projects have been most successful, or to discern changes over time in the effectiveness of projects undertaken. The number of projects included in the reports and the length of time for which project information was provided were too limited. Data on the number of jobs created or retained by projects were largely incomplete, improperly estimated, or inconsistently reported. Moreover, the reports systematically underestimate the costs to the city of EDC projects and overestimate their fiscal benefits. Also, because multiyear totals of costs and benefits (whether past or projected future benefits) were not in present-value terms, meaningful comparison of projects was impossible. In a 2001 fiscal brief, IBO published its analysis of Local Law 69's implementation, commenting on the limited distribution of the Local Law 69 reports and detailing the shortcomings of the methodology and data.

In response to the criticisms of IBO and others, in 2005 the City Council enacted Local Law 48 (LL48), superseding Local Law 69. The new law required EDC to expand the scope and distribution of the reports, to revise some of the methods used to estimate projects' fiscal costs and benefits, and to report estimated costs and benefits in present-value terms. Although Local Law 48 has improved the distribution of the reports and made the estimates presented in them more useful in general, many of the problems of inconsistent and incomplete data remain unaddressed. And it remains impossible to make use of the data obtained from all of the EDC reports together to evaluate the efficacy of the incentive projects in creating jobs or the projects' fiscal impact. (Click here for more details on Local Laws 69 and 48.)

Two important features of the assistance projects, however, can be tracked over time using the reports: the location of projects and the industries of the firms receiving benefits. With Mayor Bloomberg and community groups calling for "five-borough" economic development in the city, it is useful to know where projects receiving discretionary economic benefits are located, and whether there has been any marked change over time in the distribution of projects by borough. Because the borough information in most all cases is consistent for projects across different report volumes, it is reliable for determining project location.

Tracking the distribution of discretionary economic incentives by industry over time is also useful in informing the policy debate. Some observers are concerned that the city's tax base has become too reliant on the financial activities industry and thus too vulnerable to the industry's inherent volatility. Others believe that fostering industrial diversity in the city's economy—particularly manufacturing activity—should be a public policy aim in order to create jobs with the potential to propel less-educated residents into stable middle-income employment. Although the industry classification of some companies and not-for-profit organizations benefitting from EDC projects sometimes varies across different volumes, IBO has developed a method for dealing with the inconsistencies.

At the request of Public Advocate Bill de Blasio IBO has compiled data on all the deals listed in all the Local Law 69 and Local Law 48 reports produced through fiscal year 2010 to determine the distribution of EDC discretionary incentive projects by borough and industry, and to examine whether and how the projects' location and industry have changed over time. The data and how it has been used are described in the next section. (Note: In this brief we refer to the entire set of reports produced under Local Laws 69 and 48 as "the LL69/48 reports" or simply "the EDC reports.")

Project Distribution by Borough and Industry: A Simple Count

No single borough is the predominant location of the projects reported in the LL69/48 volumes, and among all industries, the largest number of projects are in manufacturing, a shrinking sector of the city's economy. The borough with the most projects over the 1994 through 2010 period is Brooklyn—340 projects, accounting for 31.0 percent of the total. Manhattan and Queens have 25.7 and 26.6 percent of the projects, respectively, while the Bronx and Staten Island have 14.1 percent and 2.6 percent, respectively. (For the small number of projects having locations in more than one

Data and Methodology

Using the data the LL69/48 reports issued for fiscal years 1994 through 2010, IBO constructed a data set of EDC projects, where a project is defined as providing one or more benefits given to a business as incentives to retain or create a specific number of jobs at one or more locations. For each project we have included: the starting date of the project, defined as the date on which EDC entered into agreement with the beneficiary; the borough location; the industry of the beneficiary; and the amount of investment in the project by the beneficiary which we use as a proxy measure of project size. (The project size measure is described in the section entitled "Projects by Borough and Industry: Based on Project Size.") EDC provides information on most projects in more than one LL69/48 report, and we consolidated the data across reports; where there were inconsistencies across reports, generally data from later reports were used. We filled in missing information on the location and industry of projects using information obtained from EDC's staff, EDC press releases, or Web sites of specific companies or trade associations.

Creating the data set also entailed consolidating some projects separately presented in the EDC reports and excluding some others. Together, the 17 reports to date contain roughly 1,600 different projects, benefitting 1,200 different businesses or nonprofit entities. But some of what have been listed as separate projects by EDC (typically, a series of tax-exempt bond issues) are, in fact, components of a package of benefits designed to retain or create a specific number of jobs at a specific site. Whenever possible, IBO consolidated the data, reducing the number of projects by several hundred. Also, because there was an abnormally large number of projects reported only in the 1994 volume, and because many of these lacked key information, we excluded these projects. As a result of these consolidations and exclusions, 1,098 projects benefitting 978 companies and nonprofits were included in the data set.

The classification of projects into specific industry groups is based largely on the Standard Industrial Classification System and—since 2005—the North American Industrial Classification System codes for beneficiaries found in the LL69/48 reports.[4] Projects where the beneficiaries listed are site developers (usually a construction or real estate firm) have been reassigned to the industry of the business or businesses ultimately occupying the site. Where this information was not available, site developers are listed in the real estate category, with the construction category reserved for construction companies permanently occupying the project site.

borough, the location information in the LL69/48 reports refers to the project's principal site.)

A quarter of the projects benefitted manufacturing firms (279 projects, 25.4 percent), and businesses and nonprofit organizations providing educational, health, or social services together account for 260 projects (23.7 percent). Another 127 projects (11.6 percent) benefitted wholesale trade firms. Other sectors with a significant number of projects are retail, real estate, financial services, information (media and publishing), and transportation.

Projects in specific industries are often concentrated in particular boroughs, which is consistent with the overall geographic distribution of industries in the city. Four out of five projects involving manufacturing firms are in Brooklyn or Queens. Manufacturing accounts for 30.0 percent and 41.4 percent of all Brooklyn and Queens projects, respectively, as well as 27.1 percent of all projects in the Bronx. These three boroughs also account for 93.7 percent of projects benefitting wholesale firms and 86.0 percent of transportation and warehousing projects.

The largest share of the 29 Staten Island projects in our data set are those involving education, health, and social services—12 (41.4 percent) of all projects in the borough. The second most numerous group among the borough's projects consists of construction and manufacturing firms (five projects), but these industries make up a smaller share of all Staten Island projects than in the city as a whole (17.2 percent versus 28.2 percent, respectively).

Projects in Manhattan tend to involve different industries than in the other boroughs. A majority of the EDC projects involving information and financial services firms, professional services and company management, arts and recreational operations, and educational institutions are in Manhattan, and these projects—153 in total—account for over half (54.3 percent) of all Manhattan projects.

Projects by Borough and Industry: Based on Project Size

Simple counts of the number of projects in the database by borough, industry, or any other single characteristic can present a misleading picture of the distribution of EDC resources because they do not account for the size of projects. EDC projects in industries such as financial services and information tend to be larger and involve more jobs, greater financial benefits, and a bigger commitment of public and private resources than those in industries such

Nearly One-Third of All Projects Are in Brooklyn, and a Quarter Benefit Manufacturers

	All Boroughs	Bronx	Brooklyn	Manhattan	Queens	Staten Island
All Industries	**1,098**	**155**	**340**	**282**	**292**	**29**
Construction & Manufacturing	310	46	115	11	133	5
Construction	31	4	13	0	12	2
Manufacturing	279	42	102	11	121	3
Transportation & Warehousing	50	9	9	6	25	1
Wholesale Trade	127	21	59	7	39	1
Information	44	2	10	27	4	1
Financial Services	49	0	8	41	0	0
Real Estate	84	17	24	20	18	5
Professional Services & Company Management	29	0	7	18	3	1
Education, Health & Social Services	260	38	69	100	41	12
Education	97	10	26	50	11	0
Health	77	18	22	19	12	6
Social Services	74	10	20	20	18	6
Charitable Organizations	12	0	1	11	0	0
Retail, Food, Accomodation & Other Services	104	19	32	28	24	1
Retail	61	13	20	19	8	1
Food & Accomodation	13	1	1	4	7	0
Other Services	30	5	11	5	9	0
Arts, Recreation & Cultural Organizations	27	1	3	17	4	2
Other	14	2	4	7	1	0

SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, fiscal years 1994 through 2010; New York City Economic Development Corportation

NOTE: Other includes utilities, public administration, economic development organizations, and other membership groups.

as manufacturing and wholesale trade. In this section the distribution of EDC projects by borough and industry takes project size into account, using the best available measure of size presented in the LL69/48 reports.

There are many possible ways to define the size of a project, such as the projected number of jobs to be retained or created by the project, the fiscal cost or fiscal benefit to government, the value of the assistance received by firms or nonprofits involved in the project, or the beneficiary's investment in the project. Unfortunately, the data in the EDC reports provide no ideal measure fitting any of these definitions. Data on each potential measure are not reported for all projects, and there are both measurement and analytical problems with what is provided.

Shortcomings of the Local Law 69 reports (in addition to the issues of bias discussed in the appendix, "From Local Law 69 to Local Law 48") preclude using data on fiscal costs and benefits for historical comparisons. Cumulative cost and benefit amounts depend on how long a project has been in existence, making them poor measures of project size. Because the Local Law 69 reports included data on each project for only eight years, there are no comprehensive measures of costs or benefits—actual or projected—available to compare projects. Moreover, it was not until Local Law 48 was adopted that data on costs and benefits were reported in present-value terms. Without present-value amounts, there is no appropriate way to compare projects occurring at different times.

Employment-based measures of size could not be used for several reasons. Data on the number of jobs actually created or retained at project sites have not been collected and reported in a consistent manner across projects. Even if projects' current employment levels are accurately reported in each year's LL69/48 report, these data are inadequate for measuring project size because for projects where jobs are created over time, the job numbers are likely to be affected by how long projects have been in existence. Moreover, the numbers of jobs that project beneficiaries are obligated under contract with EDC (or IDA and CRC) to create or retain could not be used because for many large companies receiving benefits, these figures include jobs at New York City locations other than the project site itself.

Given these difficulties, the least problematic and most consistent measure of project size that can be obtained from the LL69/48 reports is what EDC terms "project amount." According to EDC, the project amount is a measure of the "money spent by the company on investment in the project." In the case of projects involving land sales the reported figure specifically refers to the amount a company paid for property. And in projects involving tax-exempt financing, the project amount variable equals total tax-exempt bonds issued.

Compared with the employment and fiscal cost-benefit data presented in the reports, project amount has been collected more reliably, is less affected by the number of years of the project, and is easier to adjust for inflation. The industries with the largest average project amount are in general those with the highest employment levels and most cumulative assistance provided; conversely, those industries with the smallest average project amount are also among those with the least employment and cumulative assistance.[5] Given these correlations, IBO uses project amount as a proxy for project size.

The reported project amount figure is not without problems as an analytic tool. One drawback is that IBO's measure of project size is not available for development lease and energy assistance projects which do not include bond or land-sale components. As a result, 95 projects (8.7 percent of the total) cannot be included in our distribution of project size by location and industry—a lower number excluded than if cost-benefit or employment data had been used. The location profile of the excluded projects differs from the profile of those with project values in that a majority of the excluded projects are in Brooklyn. But the industry profiles of the included and excluded sets of projects are largely similar—compared with the included projects, a smaller percentage of the excluded projects are in education, health, and social services, while a relatively larger share benefits manufacturing and information companies.

Other problems arise because the project amount variable can measure several very different things. As noted above, in general, project amount is positively related to government assistance. But where the project amount variable reflects land sales, the correlation is negative: the *lower* the sales price relative to fair market value, the *greater* the public subsidy. In projects benefiting from tax-exempt financing, the project amount variable is defined as the volume of tax-exempt bonds. Although total government subsidies increase with increases in tax-exempt funding, much of the subsidy—measured as income tax foregone—flows from the federal and state governments rather than from New York City itself. The city bears relatively little of the cost of the subsidy because its income tax rates are much lower than the federal and state tax rates, and because the city foregoes tax revenue only from those bondholders who are city residents.

In constructing our database, all project amounts from the reports were adjusted for inflation, to city fiscal year 2011 dollars, using a price index for New York City's gross product.[6] For the 1,003 projects with a reported project amount—the usable measure of project size in the database—the average amount is $38.1 million. But the median project amount is $4.0 million, far less than the average, indicating that a minority of very large projects account for a disproportionate share of the total.

For ease of exposition, in this fiscal brief we generally use the term project "value" or "size" when referring to EDC's project amount.

Distribution of Projects by Industry. Taking project size into account greatly changes the percent distributions of LL69/48 projects by borough and industry, compared with the percentages obtained from a simple count of the projects. This is because the average size of projects varies greatly by industry. Average project size is smallest for construction ($2.5 million), manufacturing ($4.7 million), and wholesale trade ($4.0 million). Finance projects on average are largest: $268.2 million. Information sector projects (publishing and media) have the second highest values on average—$195.5 million—which is almost a third higher than the average size of projects for arts, sports, recreational, and cultural organizations, which ranks third.

Because projects involving financial service and information firms (7.9 percent of the total number projects with a reported project amount) are far larger on average than those in other industries, they account for almost half of the value—48.2 percent—of all projects citywide. In contrast, projects benefitting construction, manufacturing, and wholesale companies—almost 40 percent of the total number of projects—are relatively small, so they represent only 4.5 percent of the project value. Adjusting for size also reduces the shares of projects going to education, health, social services, and charitable organizations, which altogether comprise 10.3 percent of project value.

The concentration of larger project value in certain industries is not merely the result of our particular measure of project size. Financial services and information

Project Values Are Highest on Average in Financial Services and Information

Dollars in thousands, city fiscal year 2011

	All Boroughs	Bronx	Brooklyn	Manhattan	Queens	Staten Island
All Industries	**$38,141**	**$26,218**	**$15,775**	**$89,122**	**$21,438**	**$17,233**
Construction & Manufacturing	4,490	3,178	3,375	7,495	4,167	38,352
Construction	2,462	962	1,891	0	3,675	1,614
Manufacturing	4,734	3,394	3,609	7,495	4,217	62,843
Transportation & Warehousing	75,014	16,272	1,349	28,146	126,565	57,718
Wholesale Trade	4,012	3,420	3,487	6,229	4,570	10,253
Information	195,507	107,741	5,209	261,033	45,455	3,494
Financial Services	268,178	0	287,545	266,649	0	0
Real Estate	40,665	51,581	59,684	45,929	16,018	1,051
Professional Services & Company Management	97,161	0	32,566	128,939	2,287	3,556
Education, Health & Social Services	15,627	14,477	13,574	20,551	9,586	12,698
Education	22,045	34,032	17,190	22,314	22,562	0
Health	11,958	10,295	14,675	12,578	6,901	15,803
Social Services	9,817	4,406	7,817	20,771	3,446	9,594
Charitable Organizations	23,362	0	5,816	24,957	0	0
Retail, Food, Accomodation & Other Services	10,256	6,945	4,325	18,334	11,719	17,669
Retail	10,299	6,036	3,987	20,733	8,337	17,669
Food & Accomodation	16,771	200	6,125	6,696	26,344	0
Other Services	7,609	10,658	4,753	16,867	4,975	0
Arts, Recreation & Cultural Organizations	149,282	1,806,825	35,706	17,397	318,037	40,446
Other	64,676	2,470	234,394	17,826	7,881	0

SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, fiscal years 1994 through 2010; New York City Economic Development Corportation

NOTE: Other includes utilities, public administration, economic development organizations, and other membership groups.

Finance and Information Projects Account for Nearly Half of All Project Value

	All Boroughs	Bronx	Brooklyn	Manhattan	Queens	Staten Island
All Industries	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Construction & Manufacturing	3.3%	3.7%	6.8%	0.3%	8.9%	39.7%
Construction	0.2%	0.1%	0.5%	0.0%	0.7%	0.7%
Manufacturing	3.1%	3.6%	6.3%	0.3%	8.2%	39.1%
Transportation & Warehousing	8.8%	3.3%	0.2%	0.6%	49.5%	12.0%
Wholesale Trade	1.2%	1.6%	4.2%	0.1%	2.8%	2.1%
Information	19.4%	5.5%	0.6%	30.2%	2.2%	0.7%
Financial Services	28.7%	0.0%	19.7%	43.4%	0.0%	0.0%
Real Estate	8.2%	22.4%	25.9%	3.5%	4.7%	1.1%
Professional Services & Company Management	6.3%	0.0%	2.2%	9.9%	0.1%	0.7%
Education, Health & Social Services	10.3%	13.7%	20.7%	8.3%	6.4%	31.6%
Education	5.4%	7.8%	10.2%	4.5%	4.0%	0.0%
Health	2.3%	4.7%	7.0%	0.9%	1.4%	19.6%
Social Services	1.8%	1.1%	3.4%	1.7%	1.0%	11.9%
Charitable Organizations	0.7%	0.0%	0.1%	1.2%	0.0%	0.0%
Retail, Food, Accomodation & Other Services	2.6%	3.4%	2.9%	1.9%	4.4%	3.7%
Retail	1.5%	2.0%	1.6%	1.5%	1.1%	3.7%
Food & Accomodation	0.5%	0.0%	0.1%	0.1%	2.6%	0.0%
Other Services	0.6%	1.4%	1.1%	0.3%	0.7%	0.0%
Arts, Recreation & Cultural Organizations	9.0%	46.3%	0.8%	1.2%	20.7%	8.4%
Other	2.2%	0.1%	16.0%	0.5%	0.1%	0.0%

...And the Vast Majority of Finance and Information Projects Are in Manhattan

	All Boroughs	Bronx	Brooklyn	Manhattan	Queens	Staten Island
All Industries	**100.0%**	**10.2%**	**11.5%**	**61.0%**	**16.0%**	**1.3%**
Construction & Manufacturing	**100.0%**	11.4%	23.7%	6.0%	43.6%	15.3%
Construction	**100.0%**	5.2%	30.7%	0.0%	59.7%	4.4%
Manufacturing	**100.0%**	11.8%	23.3%	6.4%	42.6%	16.0%
Transportation & Warehousing	**100.0%**	3.9%	0.3%	4.2%	90.0%	1.7%
Wholesale Trade	**100.0%**	13.3%	40.0%	6.8%	37.6%	2.2%
Information	**100.0%**	2.9%	0.4%	94.9%	1.8%	0.0%
Financial Services	**100.0%**	0.0%	7.8%	92.2%	0.0%	0.0%
Real Estate	**100.0%**	28.0%	36.2%	26.4%	9.2%	0.2%
Professional Services & Company Management	**100.0%**	0.0%	4.0%	95.5%	0.3%	0.1%
Education, Health & Social Services	**100.0%**	13.7%	23.2%	49.3%	10.0%	3.9%
Education	**100.0%**	14.9%	21.8%	51.2%	12.1%	0.0%
Health	**100.0%**	20.9%	34.8%	24.2%	9.4%	10.7%
Social Services	**100.0%**	6.2%	21.0%	55.8%	8.8%	8.1%
Charitable Organizations	**100.0%**	0.0%	2.1%	97.9%	0.0%	0.0%
Retail, Food, Accomodation & Other Services	**100.0%**	13.4%	12.7%	44.7%	27.4%	1.8%
Retail	**100.0%**	13.4%	12.2%	60.0%	11.4%	3.0%
Food & Accomodation	**100.0%**	0.1%	3.3%	10.9%	85.7%	0.0%
Other services	**100.0%**	25.0%	22.3%	31.7%	21.0%	0.0%
Arts, Recreation & Cultural Organizations	**100.0%**	52.6%	1.0%	8.1%	37.1%	1.2%
Other	**100.0%**	0.6%	83.6%	14.8%	0.9%	0.0%

SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, fiscal years 1994 through 2010; New York City Economic Development Corportation

NOTE: Other includes utilities, public administration, economic development organizations, and other membership groups.

account for 48.2 percent of total project amounts, 46.0 percent of reported employment, and 46.1 percent of the cumulative assistance provided. Moreover those industries with the smallest average project amount are also among those with the least employment and cumulative assistance.

Distribution of Projects by Borough. The borough distribution of the LL69/48 projects also is greatly affected when project size is taken into account. Because the industries with the largest projects on average—finance and information—are concentrated in Manhattan, the distribution of project value is greatly skewed to that borough. Moreover, many large projects in other industries are also concentrated in Manhattan. In contrast, the many construction and manufacturing projects mostly undertaken outside of Manhattan are relatively small and account for only a small share of project value citywide and within most boroughs. Instead, a handful of larger projects in other industries determine which sectors account for the bulk of project value within the Bronx, Brooklyn, and Queens.

Manhattan. Manhattan accounts for 61.0 percent of the value of projects in all industries citywide. The industries that tend to have the largest projects are concentrated there: 94.9 percent of the value of all information sector projects flow to Manhattan, along with 92.2 percent of financial services projects, and 95.5 percent of projects benefitting professional service firms and company management offices. These industries together account for 83.5 percent of the value of projects in the borough, and as a result of their size, Manhattan projects in these three sectors account for over half of the value of all projects in all five boroughs. But the borough's dominance is not limited to the industries with the largest projects. Over half of the value of projects in education and social services (51.2 percent and 55.8 percent, respectively), almost all projects involving charitable organizations, and three-fifths of retail projects are also located in Manhattan.

Manhattan's share of the value of all projects dwarfs those in the other boroughs, each of which contain disproportionately small shares of project value in the information, finance, and professional services industries. A discussion of the concentration of project value in the other boroughs, ordered by their share of value citywide, follows.

Queens. The borough accounts for 16.0 percent of project value citywide. A majority of the value of construction projects (59.7 percent) and 42.6 percent of the value of manufacturing projects in the data set are located in Queens, but together they account for only 8.9 percent of the borough's total project value. Because EDC has undertaken a number of large-scale projects involving airlines and air-shipping companies in Queens, transportation projects account for the largest share of project value in the borough—49.5 percent. Moreover, the vast majority of the value of transportation projects—90.0 percent of the citywide total—is in Queens.

Brooklyn. Brooklyn projects account for 11.5 percent of project value in all boroughs. Almost all projects benefitting financial services firms outside of Manhattan are located in Brooklyn, primarily in the Metrotech development. Taken together, financial services accounts for almost a fifth of all project value in the borough. A quarter of Brooklyn's total project value reflects real estate companies undertaking other large-scale development projects in the borough's downtown. Education, health, and social service projects account for 20.7 percent of the value of projects in Brooklyn, higher than the comparable shares in all boroughs other than Staten Island.

Bronx. The borough accounts for 10.2 percent of project value citywide. Arts, recreational, and cultural organizations account for half of Bronx project value, driven by the 2007 construction of a new Yankee Stadium. With a project amount of $1.6 billion in the latest report, this project dwarfs almost all other projects in the database. Prior to the stadium, projects for education, health, and social service organizations accounted for just over half the Bronx projects, the result of several major projects at private schools.

Staten Island. Staten Island accounts for 1.3 percent of the value of projects citywide. Because of one large project, the average value of Staten Island manufacturing projects is much greater than the average value for manufacturing projects in the Bronx, Brooklyn, and Queens, the three boroughs in which almost all manufacturing projects are located. Only in Staten Island does manufacturing account for a large share—39.1 percent—of project value. (In contrast, manufacturing accounts for less than 10 percent of project value in each of the other boroughs.) Projects benefitting health care providers also account for a significant share (19.6 percent) of the value in Staten Island.

Changing Times, Changing Project Characteristics

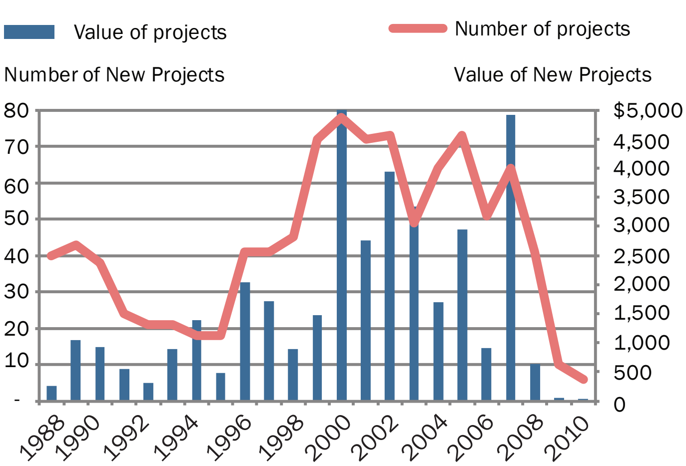
To identify possible changes over time in the number, size, industry, and location of the business assistance projects initiated by EDC, we examined the characteristics of new projects initiated each fiscal year. There were significant changes over the years. Both the number of projects and inflation-adjusted value peaked in 2000. For over a decade, beginning in the mid-1990s, projects for finance and information companies, located mostly in Manhattan, accounted for the lion's share of project value. Since 1999, the number and size of projects for education, health, and social service organizations have increased, and in the last six years these projects have accounted for almost 15 percent of all project value.

To determine when projects begin, we used the fiscal year in which the beneficiary company and EDC (or IDA and CRC) completed and signed their agreement—the "start date" in the most recent LL69/48 reports. The start dates listed in the various reports for each project are generally consistent across reports. For some projects the start date differs from the point in time when benefits actually begin. Using this start date focuses the analysis on EDC deals as planned, regardless of when the plans were ultimately realized.

Number and Value of New Projects. From 1988 through 1995, on average 28 projects were initiated each year. Starting in 1996, the number of new projects began to increase sharply, reaching a peak of 78 projects in 2000. From 2000 to 2008, the number of new projects generally remained high but varied from year to year, before dropping to a low of 10 in 2009 and 6 in 2010. The unusually low number of projects initiated after 2008 is in part due to the failure of the New York State Legislature to renew IDA's authority to issue tax-free bonds for nonprofit organizations.

The total value of new projects also peaked in 2000, at an inflation-adjusted $5.0 billion. Total project value has varied sharply from year to year but was generally higher during the past decade than in the 1990s. However, only in 2007, when the huge projects leading to new baseball stadiums for the Yankees and Mets were initiated, did the dollar total ($4.9 billion) come close to the 2000 peak.

The Number and Value of New Projects Peaked in 2000
Dollars in millions (city fiscal year 2011)



SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, city fiscal years 1984 through 2010; New York City Economic Development Corporation
NOTE: Project value amounts adjusted for inflation using New York City gross city product price index created by Moody's Analytics for IBO.

Similarly, the average value of new projects has also varied over time. The average value of projects begun in 2000 ($64.1 million) is exceeded in two years: in 1994, when at least half of the initiated projects were large deals benefitting information and financial companies, which boosted the average to $77.3 million, and in 2007, when the two stadium projects pulled the average up to $76.7 million.

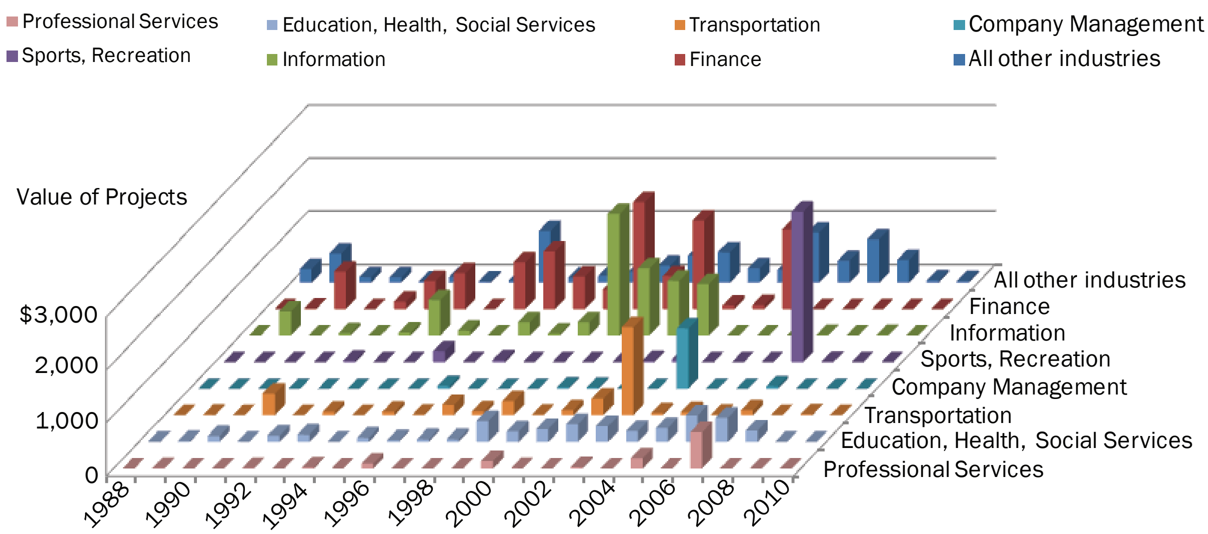
Changes in the Industries of Projects. In most years the largest shares of new project value have gone to information and financial firms. In all but 2 of the 14 years from 1992 through 2005, the largest share of new project value was in either information or finance, and projects benefitting companies in these industries together accounted for 59.5 percent of new project value over the entire period. For the most part, the years in which the combined value of finance and information projects is highest—1994, 1996, and 2000 through 2002—are those in which the total value of new projects is relatively high.

Large-scale projects in other industries are predominant in other years, such as 2007 when the two major league baseball stadium projects began and the East River Science Park project swelled benefits for the professional services sector. Another example is 2004, when projects benefitting company management offices (Liz Claiborne, Pfizer) accounted for the majority of new project value. A project for American Airlines facilities at Kennedy airport begun in 2003 resulted in the transportation sector having the largest share of new project value (49.4 percent) that year, in spite of several large projects for publishers in the same year. Finally, without major new projects in finance or information, in 1995 new projects in the sports and recreation sector—specifically the USTA Billie Jean King National Tennis Center—accounted for the largest share of new project value (43.8 percent of the total).

In contrast to the sporadic increases in projects for other industries, in the last decade there had been fairly consistent support for projects benefitting education, health, and social service organizations. As a result of a calendar year 1997 expansion of IDA's authority to finance projects for nonprofit entities, the number of new projects in this broad sector jumped from four in fiscal year 1998 to 20 in 1999, with the total value of these projects rising from $49 million to $386 million over the same period.[7] Since 1999 on average there have been 16 new projects a year for education, health, and social service organizations. The total

In Most Years, the Largest Shares of New Project Value Went to Finance and Information

Dollars in millions (city fiscal year 2011)



SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, city fiscal years 1984 through 2010; New York City Economic Development Corporation

value of new projects in these industries peaked at $490 million in 2006, but because the IDA's authority to issue bonds for nonprofits expired on January 31, 2008, no projects for education, health, and social service facilities were begun in the final months of fiscal year 2008 or in 2009 and 2010.

Changes in the Borough of Projects. The industries accounting for most of the larger projects—finance and information—are concentrated in Manhattan. As a result, Manhattan projects accounted for the lion's share of new projects' value each year for over a decade—in almost all but the earliest and latest years covered by the LL69/48 data.

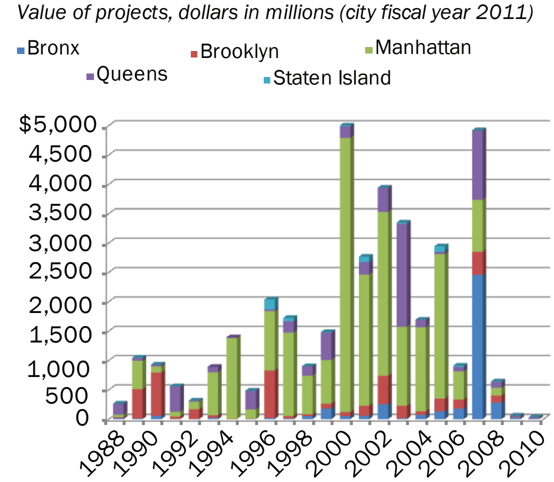
Prior to 1993, Brooklyn and/or Queens, or both, accounted for most of the value of projects being initiated each year. For example, with the initiation of projects benefitting Chase Manhattan Bank in Metrotech Center, 79.8 percent of new project value in 1990 was in Brooklyn. The following year, the start of a large project for American Airlines led Queens to account for 77.4 percent of new project value. Turning to the last few years, with the start of the two stadium projects, the Bronx and Queens together accounted for 74.9 percent of the value of projects begun in 2007. In 2008 through 2010 there were no new large-scale projects for finance or information firms, and the value of nearly all new projects comes from projects outside of Manhattan.

But from 1993 through 2006, Manhattan accounted for 72.9 percent of the value of projects initiated. The only year during that period in which another borough accounted for more project value than Manhattan was 1995, when two large projects in Queens—the tennis center and one at Kennedy Airport—were begun.

Different Mayors, Different Projects. Keeping in mind that many factors influence the number, size, location, and industry of EDC's discretionary economic development projects, we conclude the fiscal brief with a look at how the distribution of projects has varied across mayoral administrations. Projects benefiting financial service and information firms, primarily concentrated in Manhattan, accounted for the majority of the value of new projects

For Over a Decade, Manhattan Accounted for Most of the Value of New Projects

Value of projects, dollars in millions (city fiscal year 2011)



SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, city fiscal years 1984 through 2010; New York City Economic Development Corporation in the Koch, Dinkins, and Giuliani Administrations. With declines in the value of new projects assisting financial and information firms beginning in 2002 and 2003, respectively, these industries represent a smaller share of economic development assistance under Mayor Bloomberg.

Changes in economic development policies and efforts from one administration to the next are only one of the reasons that the number, value, and distribution of EDC's discretionary economic development projects change over time. Other determinants include general economic conditions, the fortunes of specific industries, and competitive pressures from nearby states and localities. Legal changes—such as the expiration of IDA's authority to issue bonds for not-for-profits and the creation of the Liberty Bond program (discussed on page 12)—also influenced the choice of projects undertaken by EDC.

The dataset created from the LL69/48 reports contains projects initiated during 23 city fiscal years (1988 through 2010) extending over four mayoral administrations. In assigning EDC projects to specific mayors, we have attributed projects to the mayor in office when the project was agreed to with one exception: projects initiated in the first six months of a new mayor's term are attributed to the administration of the previous mayor.[8] With this adjustment, the reports effectively cover projects begun over a 36-month period at the end of the Koch Administration and over an 96-month period, through the end of 2010, of the Bloomberg Administration, as well as four and eight years, respectively, of the Dinkins and Giuliani Administrations.

It is important to note that data contained in the early LL69 reports probably understate the number and value of projects undertaken in the Koch and (to a lesser extent) Dinkins Administrations. Although each report is supposed to cover projects begun not just in that year but also in the seven preceding years, records for projects that started *before* the law was enacted are unlikely to be as complete. Moreover, as noted in the Data and Methodology box on page 3, IBO has excluded from the database a number of projects that appear only in the first LL69 report.

Koch Administration. Only a few of the 121 projects begun by the Koch Administration benefit information and financial companies, but they account for over half the total value of his administration's projects (32.2 percent

Projects During the Dinkins and Guiliani Administrations Were Relatively More Oriented to Financial and Information Firms

	Koch	Dinkins	Guiliani	Bloomberg
Number of Projects	121	84	440	358
Number of Projects per Year	44.0	21.0	55.0	49.4
Total Value of Projects, *Dollars in millions**	$2,235.0	$3,152.3	$18,325.7	$14,542.6
Total Project Values per Year	$812.7	$788.1	$2,290.7	$2,005.9
Average Project Value	$18.5	$37.5	$41.6	$40.6
Distribution of Project Value by Boroughs				
Bronx	3.8%	0.9%	3.4%	21.8%
Brooklyn	56.1%	8.1%	9.3%	8.1%
Manhattan	27.8%	73.6%	74.6%	46.3%
Queens	12.0%	17.4%	10.9%	22.8%
Staten Island	0.4%	0.0%	1.8%	1.0%
Distribution of Project Value by Selected Industries				
Finance	32.2%	42.8%	39.7%	11.3%
Information	20.4%	24.4%	28.5%	6.8%
Sports, Recreation	0.0%	1.0%	1.5%	20.0%
Company Management	0.0%	0.0%	0.5%	8.1%
Transportation	0.2%	15.0%	5.5%	12.8%
Professional Services	0.2%	0.8%	1.3%	6.1%
Education, Health, Social Services	5.9%	8.1%	7.4%	13.1%
All other	41.1%	8.0%	15.6%	21.9%

SOURCES: IBO, compiled from annual Local Law 69 and Local Law 48 reports, fiscal years 1994 through 2010; New York City Economic Development Corportation

NOTES: Distribution percentages sum to 100 percent in columns of each section. Projects begun in the first six months of a new Mayoral administration are attributed to the previous mayor. *Dollar amounts are adjusted for inflation (city fiscal year 2011).

for finance and 20.4 percent for information), somewhat less than the comparable shares of projects begun in the Dinkins and Giuliani Administrations. But in contrast to those of succeeding administrations, Manhattan projects do not account for the majority of project value under Mayor Koch. Rather, Brooklyn projects accounted for 56.1 percent of the total value of Koch Administration projects, mainly because of large-scale projects for Chase Manhattan and Forest City (a real estate development company that developed Metrotech) in downtown Brooklyn. Half the Koch Administration's projects benefitted manufacturers and wholesale trade companies, and they accounted for 6.3 percent and 2.3 percent, respectively, of total project value—almost double the share in succeeding administrations. In contrast, the relative share of project value going to education, health, and social service projects (5.9 percent) was less than the comparable shares in other administrations. The authority of the IDA to do these projects was not granted until 1999.

Dinkins Administration. The average number of projects per year under Mayor Dinkins is lower than in the other administrations, while the average value of EDC projects under Mayor Dinkins is almost as high as the averages during the Giuliani and Bloomberg mayoralties. But the borough distribution of project value under Mayor Dinkins is very similar to that under Mayor Giuliani. Manhattan projects accounted for 73.6 percent of the value of projects begun during the Dinkins Administration, compared with 74.6 percent during the Giuliani Administration; the only sizable difference is that Queens projects account for a somewhat greater percentage of project value under Mayor Dinkins than under Mayor Giuliani. Consistent with the dominance of Manhattan projects under the two administrations is the dominance of finance and information projects, accounting for nearly 67.1 percent of the value of projects in both eras. The share of project value going to the transportation sector is far larger under Mayor Dinkins than under the other mayors, due in large part to a couple of large projects for airlines in Queens.

Giuliani Administration. Of all four administrations, the number of projects per year, the total value of projects per year, and the average value of projects are all greatest under the Giuliani Administration. The total value of projects per year begun by the Giuliani Administration is almost three times as large as the values under the previous mayors. Most finance and information projects in the LL69/48 reports and most of the total value of these projects (66.2 percent of finance and 70.3 percent of information) were initiated by the Giuliani Administration, and most of these projects are located in Manhattan. The total value per year of projects for education, health, and social services doubled but only accounted for roughly the same share of the Giuliani Administration's total project value as the sector's share during the Dinkins years.

Bloomberg Administration. Manhattan projects account for 46.3 percent of the value of EDC projects initiated by the Bloomberg Administration—a far smaller proportion than those during the Dinkins and Giuliani Administrations. Had it not been for the Liberty Bond program, which made federal dollars available for development projects in the wake of September 11, the share of project value going to Manhattan would have been even lower.[9] Compared with the other administrations, no industries are especially dominant among projects begun during the Bloomberg Administration, in large part because the number and value of new projects for financial and information companies began to decrease in 2002 and 2003, respectively. Due to the two large stadium projects, sports and recreation projects account for the largest share of total project value under Mayor Bloomberg, but this share is just 20.0 percent.

In recent years there has been a clear trend toward education, health, and social service projects, accounting for 13.1 percent of all projects initiated under Mayor Bloomberg and increasing the shares of total new project value going to the Bronx and Queens. However, funding for these projects ended abruptly on January 31, 2008, when the state legislation authorizing this assistance sunset.

Conclusion

The 17 annual reports EDC has produced in compliance with Local Laws 69 and 48 have enabled IBO to examine the locations and industries of businesses receiving discretionary economic development incentives. In doing so, the predominance of projects for financial and information firms—in terms of both their size and share of the total value of EDC projects relative to projects in other industries—becomes evident, though it has declined sharply in recent years.

Less than 10 percent of all projects in our database assist finance and information companies in creating or retaining jobs in New York City, but nearly half the value of all projects is concentrated in these two industries. Most finance and information projects are in Manhattan, so the borough accounts for the lion's share of total project value (61.0 percent). The total annual value of finance and information projects begun from 1993 through 2003 was particularly large in comparison with the value of projects begun in most years before and after that period. With the expansion of IDA's authority to finance projects for not-for-profit groups in 1999, the value of newly initiated projects for education, health, and social service organizations greatly increased, until that authority expired in 2008.

The problems with the data in the LL69/48 reports, however, do not allow us to produce credible estimates of the costs to the city of different projects or their effectiveness in creating or retaining jobs. Local Law 48 has clearly addressed some of the most conspicuous flaws in the methodology employed in the Local Law 69 reports for estimating projects' fiscal costs and benefits, and requires present-value projections over the life of projects. But for researchers to determine whether the city's job-creation and job-retention efforts are cost-effective, the employment data in the Local Law 48 reports needs to be improved and collected more consistently across projects. Moreover, the specific number of jobs at each project site—the number of jobs at the project's start, the projected number at the project's end, and the current number at the time EDC's report is prepared—needs to be included in the reports in order to determine which projects create the most jobs per city dollar spent or foregone and which provide the greatest fiscal benefit per job, and to know if projects for some industries are more effective at stimulating economic activity than others.

Report prepared by Michael Jacobs

Endnotes

[1]Formally, IDA is a public benefit corporation required under law to have a detailed Uniform Tax Exemption Policy establishing eligibility for discretionary incentives. CRC is a not-for-profit organization. The Mayor controls the majority of the IDA, CRC, and EDC Boards of Directors.
[2]Though its President and the majority of its board members are appointed by the Mayor, EDC is legally a private entity. EDC operates under a master contract with the city, which is renewed annually, to provide a variety of economic development services.
[3]EDC also undertakes other development projects that do not entail discretionary benefits and, therefore, do not appear in the reports.
[4]In the last 10 years, NAICS has replaced SIC as the official structure for categorizing employment by industry.
[5]Four of the five industries with the largest average project amounts—finance, information, public administration and utilities, recreation, and company management—are also among the five with the highest employment figures in the reports and the five receiving the most assistance. Firms in the three industries with the lowest average project amounts—construction, manufacturing, and wholesale—are among those industries with the least reported employment and lowest levels of assistance.
[6]The index was constructed for IBO by Moody's Analytics.
[7]The IDA Act was amended in 1997 to authorize financing of schools' dormitory facilities, certain medical facilities, and assisted living facilities for the elderly. Initially only projects that did not exceed $15 million could receive IDA financing, but that limit was raised to $20 million in 1999.
[8]In general, it takes months from the time EDC begins to consider a project to the day on which the project has been agreed to and signed. Although IBO followed EDC's recommendation in choosing six months as the cut-off for re-assigning projects, using a three-month decision rule has little impact on the results reported in Figure 7.
[9]Though EDC was not legally prohibited from using Liberty Bond funding for projects in other boroughs, all but one Liberty Bond project was located in Manhattan.

Supplement to this report:
From Local Law 69 to Local Law 48

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