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Testimony of George Sweeting
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Before the New York City Council Finance Committee
On the Prevailing Wage Bill (Intro 18)

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Good morning Chairman Recchia and members of the Finance Committee. I am George Sweeting, Deputy Director of the New York City Independent Budget Office. Thank you for the opportunity to offer this testimony regarding Intro 18.

This legislation would require companies and organizations receiving financial assistance from the city or leasing space to the city to ensure that building service workers in the affected buildings are paid the prevailing wage. I will leave discussion of the prevailing wage requirement to others. We were also unable to get information from Department of Citywide Administrative Services in time for this hearing about the size and cost of spaces leased by the city and when current leases are up for renewal. Therefore, my remarks will focus on the financial assistance aspects of Intro 18. Since the requirement would only apply to new financial assistance, IBO has estimated the number of new beneficiaries of economic development or property tax benefits that would be expected to be subject to the provisions of the law each year. In short, we estimate that there are about 2,400 new instances of financial assistance each year that could be subject to the prevailing wage requirement.

The bulk of the buildings that would be covered by Intro 18 would be those owned by or landlords of firms receiving financial assistance from the city. As defined in the Intro this includes cases where firms receive tax exemptions or abatements, and other forms of cash payments or reduced fees. I will briefly discuss these broad categories.

Property Tax Exemptions. Companies or organizations receiving an array of property tax exemptions would be subject to the prevailing wage requirement for the building service workers in the buildings they operate in, effective with their first new or renewed lease after enactment of the law. IBO found that about 2,300 new property tax exemptions that would potentially make developers subject to the new requirement were granted, on average, each year under these programs from 2005 to 2009.

Housing development exemptions account for 72 percent, or about 1,600, of such property tax exemptions each year (counting exemptions for condominiums on a building rather than a unit basis). New exemptions for housing have grown during the recent boom, at an average of 9 percent a year, from 1,400 new exemptions in 2005 to about 2,000 in 2009. Given that the city was in a real estate boom during much of this time, this number probably overstates the number of new exemptions likely to be experienced in a calmer real estate market.

The largest program is 421-a, with an average of 920 new exemptions a year. Some 421-a recipients are already required to pay prevailing wages under the revisions to the 421-a program enacted in 2007, however, based on quick analysis of new buildings receiving 421-a from 2005 to 2009, roughly 90 percent were exempt from the prevailing wage requirements in the 2007 legislation because the projects had fewer than 50 units. Intro 18 would extend the requirement to the developments that had been exempted under the 421-a legislation because of building size or affordability.

About 200 new exemptions are granted each year through affordable housing programs and other initiatives managed by the city's Department of Housing Preservation and Development. In many cases the developers involved with these programs are not-for-profits. Although included in our total number of exemptions, we could not estimate how many might be exempt from the new prevailing wage requirement.

The city grants an average of about 640 new as-of-right commercial development property tax benefits annually through the Industrial and Commercial Abatement Program (ICAP) which is replacing the older Industrial and Commercial Incentive Program. It is likely that most such beneficiaries would be subject to the new prevailing wage requirement.

Non- property Tax Economic Development Benefits. The city also has a variety of smaller programs that provide benefits, often against business income taxes, commercial rent tax, or utility payments, for companies relocating to or staying within the city. One such program, the Relocation and Employment Assistance Program (REAP) offers a $3,000 refundable credit against business income taxes per employee relocated. IBO estimated that the city grants REAP to about 20 new companies each year.

Many of the benefits enumerated in the bill are often part of deals negotiated between the Economic Development Corporation (EDC), the Industrial Development Agency (IDA), and the Capital Resource Corporation. IBO drew on the Local Law 48 reports of economic development benefits to estimate how many new benefit deals are granted yearly. From 2001 to 2008, there was an average of 60 deals a year. For the same period, IBO found that there were, on average, 61 new property tax exemptions granted by EDC or IDA.

Number of New Beneficiaries. Overall, excluding the programs likely to have many beneficiaries that are not subject to the prevailing wage requirement, IBO found that on average about 2,400 new financial assistance benefits are granted each year. This is an outside estimate of the number of cases where a building's service workers would become newly subject to the prevailing wage requirement. A company or a building can receive more than one property tax exemption making some double-counting likely. In addition, some of the buildings almost certainly already have unionized building service workers; something we could not measure.

Geographic Distribution

The geographic distribution of the recipients of these exemptions granted each year is helpful when considering the possible effects of Intro 18. The rate of unionization among building workers in the city is not consistent across the boroughs and the costs of requiring prevailing wages in buildings in neighborhoods outside Manhattan, where many of these incentives are targeted, may differ from the effects of requiring prevailing wages in a Manhattan office building.

Looking at all new exemptions from 2005 to 2009, IBO found that 49 percent of housing exemptions are in Brooklyn, 20 percent in Queens, about 18 percent are in Manhattan and 13 percent in the Bronx (there are very few multifamily housing exemptions granted in Staten Island).

As with housing, about 40 percent of new EDC/IDA tax expenditures are for buildings in Brooklyn. About 22 percent of EDC/IDA property tax exemptions are for buildings in Manhattan. The remaining EDC/IDA exemptions are split between the boroughs, with about 15 percent in Queens, 14 percent in the Bronx and 8 percent in Staten Island.
Economic development property tax benefits are distributed somewhat differently; a function of the exclusion of most of Manhattan from ICAP. About one-third of the exemptions are in Brooklyn and another third are in Queens, followed by 12 percent in the Bronx, 11 percent in Manhattan, and 10 percent in Staten Island.

Thank you for the opportunity to testify this morning. We also have a few suggestions for clarifying certain provisions in the Intro that we would be happy to discuss with the committee staff. I would be glad to answer any questions you may have at this time.