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Testimony of Sean Campion
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To the New York City Council Small Business Committee
On Industrial Business Zones and the Future of New York City's Manufacturing Sector

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Good afternoon Chair Reyna and members of the committee. My name is Sean Campion. I am a budget and policy analyst for economic development at the New York City Independent Budget Office. Thank you for the invitation to appear before you at this oversight hearing on New York City's Industrial Business Zones and the future of the city's manufacturing sector.

The Bloomberg Administration's approach to the manufacturing sector has its roots in a 2005 white paper entitled "Protecting and Growing New York's Industrial Base." In the years that followed, the city unveiled a number of new initiatives that promised to address a variety of concerns raised in that study, ranging from the supply of affordable industrial space, to the cost of doing business, to the quality of the city's workforce. In addition to the new programs, the Bloomberg Administration has also modified or eliminated a number of long-standing industrial incentives, while maintaining others.

In general, the city supports the manufacturing sector in at least four ways: by promoting manufacturing and other industrial uses on city-owned land; by offering business services and support directly to industrial firms; by training and placing workers in manufacturing jobs; and by offering incentives to spur private sector investment in industrial buildings. Financial support for these efforts include direct spending through the city's capital and expense budgets, off-budget spending through the Economic Development Corporation (EDC) and the Industrial Development Agency (IDA), and by foregoing tax revenue through as-of-right incentives and discretionary tax incentives.

IBO currently has a research project underway examining the city's industrial sector policies and characteristics of the manufacturing labor force. My comments today draw on preliminary results from that work and focus primarily on the fiscal costs to the city of the various supports it offers to the industrial sector.

The city promotes industrial uses on city-owned properties, most notably in the Brooklyn Navy Yard, Hunts Point, and along the Sunset Park waterfront. This effort goes beyond simply making public land available for industrial and manufacturing businesses. In recent years, the city has funded an ongoing capital campaign to upgrade publicly owned industrial buildings and districts. These efforts have succeeded in attracting new industrial businesses to previously underutilized areas along the waterfront.

Our preliminary analysis shows that from 2002 through 2012, the city probably spent as much as $700 million developing, upgrading and modernizing industrial properties throughout the city and that nearly all of that has been spent on projects at city-owned industrial sites. More than $200 million has gone to the Navy Yard, making it the largest recipient of capital funds targeted at the sector.

In addition to capital investment, the city offers a variety of programs and services to support New York's industrial businesses. The Industrial Business Zone (IBZ) program, which has been the hallmark of the city's current industrial policy, falls partly into this category. First proposed in 2005, the IBZs now cover 16 industrial districts in the Bronx, Brooklyn, and Queens. We should note that the IBZ program is the product of executive policymaking and is not part of the zoning regulations that govern manufacturing districts. The zones are a good faith pledge on the part of the Bloomberg Administration not to rezone the designated areas for nonindustrial uses and to discourage the conversion of industrial properties.

Through the IBZ program, the city provides expense budget funding for third party nonprofit organizations, which in turn offer business assistance and advocacy for the industrial tenants that occupy space within the zones. Funding for the program (combined with its predecessor, the In-Place Industrial Park program) has steadily declined in recent years, from a high of more than $4 million in 2008 to about $1 million in 2013. Its funding has also been subject to annual reauthorization as part of the "budget dance" at adoption each June when there has been increasing competition for funds among programs whose budgets were cut by the Mayor.

In addition to providing business services, the IBZ program was also intended to help protect the city's existing manufacturing districts. It is difficult to evaluate whether these zones have been effective in that role. In terms of the IBZ program's effect on employment and businesses, the best source of information is the firm-level data from the Quarterly Census of Employment and Wages. Both the Economic Development Corporation and city planning have access to this dataset, which they used in their evaluation of the program in their "The New Industrial NYC" presentation in 2011. Broader access to this data by IBO and other researchers has been stymied by privacy concerns but we would encourage the Council and others to ask the current and future administrations to share more detailed data on employment and establishment growth in the IBZs.

Over the same period, we have also witnessed a shift of business service programs away from **the** Department of Small Business Services (SBS), whose budget is publicly available, towards EDC, which does not share detailed information about its budget. Functions once performed by SBS or by groups like the Garment Industry Development Corporation and the short-lived Mayor's Office of Industrial and Manufacturing Businesses are now consolidated in EDC's Industrial Desk. We cannot say for certain how much EDC currently spends on business service programs, or how the aggregate, citywide budget on business services targeted at manufacturing businesses compares with what the city spent in years past.

The city also provides workforce training and job placement services through its Workforce1 career centers. Despite cutbacks in federal funding, these programs have not suffered from the same cuts seen in the IBZ program. SBS's Workforce1 industrial initiatives have received $4 million to $5 million in funding each year since 2010, and the city has committed at least $4.4 million annually to the program in the financial plan through 2017.

Finally, the city encourages private investment in the manufacturing sector through a variety of incentives and loan and grant programs.

Three tax incentives targeted at industrial businesses—the Industrial Business Zone tax credit, a reduction in the Commercial Rent Tax in the Garment Center, and a manufacturing property depreciation credit—do not appear to be widely used. For each year that data is available from the Department of Finance (fiscal years 1998-2009), the number of beneficiaries and total tax expenditure for all three programs has been too small to disclose.

One reason so few firms have taken advantage of the IBZ credit is that eligible firms may have chosen instead to claim benefits from the Relocation and Employment Assistance Program (REAP), which offers a richer credit than the IBZ program and prohibits businesses from claiming both credits for the same relocated workers. However, it should be noted that the REAP program, like the IBZ credit, also is not widely used. In tax year 2007, 33 manufacturers received REAP benefits worth $2.3 million. REAP recently expired without being reauthorized in Albany and no new applications have been accepted since June 30, 2013.

Other major sources of support come through as-of-right benefits offered through the Industrial and Commercial Incentive Program (ICIP) and its replacement the Industrial and Commercial Abatement Program (ICAP), as well as discretionary assistance from the Industrial Development Agency.

ICIP and ICAP benefits are offered to building owners rather than directly to tenants, so it is difficult to determine how many industrial firms have benefited from the programs. However, we can use the Department of Finance's building classification system to identify the types of buildings that have received tax exemptions or abatements.

In 2013, 1,361 factories, warehouses and lofts received ICIP benefits worth $64 million, while an additional 41 received ICAP benefits worth $957,000. Among properties receiving ICIP benefits, industrial properties represented 19 percent of beneficiaries and received 10 percent of the total expenditure. This discrepancy is unsurprising given the lower valuation of industrial property relative to uses like retail stores, office buildings and utility properties that have disproportionately benefited from ICIP. Among industrial properties, a majority of the benefits has flowed to warehouses.

Industrial businesses also receive discretionary benefits from the New York City Industrial Development Agency to help defray the cost of buying, renovating, or equipping new facilities. Since 2002, IBO estimates that 132 industrial businesses have received discretionary assistance from the IDA that will cost New York City $135 million over the lifetime of the deals. (That figure includes businesses in the construction, manufacturing, wholesale trade, and transportation and warehousing sectors.)

The average industrial project receiving EDC/IDA discretionary benefits has received an incentive package that costs the city $1 million in foregone revenue. Industrial assistance packages tend to be smaller than those benefiting nonindustrial projects, but the gap between the cost of industrial and nonindustrial projects has narrowed considerably. Before 2002, industrial projects made up 47 percent of all IDA projects but received only 17 percent of the total assistance. Since 2002, the industrial sector's share of deals has fallen to 39 percent, but its share of total assistance has risen to 27 percent.

Thank you again for inviting us to testify this afternoon, and we are happy to answer any questions you may have.