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Analysis of Hudson Yards Financing Plan Finds Extra Cost of More than $1 Billion, Risks to City Budget

The New York City Independent Budget Office today released a report on the city's plan for financing $3 billion in infrastructure improvements for the Hudson Yards area on Manhattan's far West Side. IBO finds that the financing proposal, which would borrow the funds outside the city's capital budget, will cost $1.3 billion more than if the city used its usual means of borrowing to fund the plan. Although the city would create a separate corporation to borrow the funds, IBO also finds that the plan poses several risks to the city budget.

Public Advocate Betsy Gotbaum, who asked IBO to undertake the analysis of the financing plan, said, "I requested that the Independent Budget Office analyze the Mayor's plan for financing the Hudson Yards development because I was concerned about the cost to New York City taxpayers and the lack of public input. I fully support the development of the West Side, but taxpayers have the right to know that the Mayor's financing plan is complicated and comes with a price tag of an extra $1.3 billion."

IBO Director Ronnie Lowenstein said, "While the Hudson Yards plan is vitally important for the city's future development, we find that the financing proposal poses significant risks for the city budget."

The improvements to be paid for through the borrowing plan include the extension of the #7 subway line, construction of a platform over the Eastern Rail Yard, creation of a new boulevard, formation of new park space, and other upgrades. By financing these improvements outside of the capital plan, the city will not have to pay debt service through its operating budget and the Hudson Yards investments would not compete for funding with other capital spending projects such as schools, hospitals, and roads. But Public Advocate Gotbaum noted, "This approach also means Hudson Yards is removed from the usual process of legislative review."

Under the plan, a newly created Hudson Yards Infrastructure Corporation would sell long-term bonds backed by a variety of revenues expected to be generated as a result of the improvements to the area. Because the project will not generate enough revenue in its early years to cover debt service, the city will use commercial paper—a type of short-term debt—to pay the interest. But if investors become unwilling to purchase the commercial paper, the Transitional Finance Authority will buy it using a portion of the city's personal income tax revenue—revenue that otherwise supports basic city programs and services. The outstanding value of the commercial paper will vary from year to year, peaking at $766.5 million.

Until the project's debt is repaid, the city would receive payments in lieu of property taxes for residential and commercial sites in the Hudson Yards only if revenues exceed debt service payments plus other project expenses. If incremental tax revenue from income, sales, and appreciation of other properties in Hudson Yards fails to cover the cost of the additional municipal services required as the area develops, the city's general revenue sources—the funds used to pay for police, fire, schools, sanitation and other basic services citywide—will also be tapped to cover the extra expense.

In addition to *West Side Financing's Complex, $1.3 Billion Story* on the Hudson Yards plan, IBO also released a companion report today projecting the city's office space needs through 2035. A major source of revenue for the Hudson Yards financing comes from the expectation that 28 million square feet of office space will be built in the project area between 2010 and 2035. But in addition to the plans for Hudson Yards, the city and state also plan major office development for the World Trade Center site and Downtown Brooklyn. Taken together, the three projects would enable developers to build 42.5 million square feet of office space.

Although the total amount of office space for these three projects is less than IBO's midrange estimate of office space needed by 2035, these are not the only sites where development may occur. Manhattan has the potential for as much as 13 million square feet of office space at other locations, and the other boroughs provide opportunities as well. IBO's projection of future office space needs suggest that under reasonable assumptions, current city and state plans could allow the construction of more office space than needed. If the demand for office space at Hudson Yards falls short of expectations and fails to produce the anticipated revenue, more short-term borrowing to pay debt service may be necessary and the potential risk to the city's budget is increased.

Both *West Side Financing's Complex, $1.3 Billion Story* and *Supply & Demand: City and State May Be Planning to Much Office Space* are available for free on IBO's Web site at www.ibo.nyc.ny.us or by calling 212-442-0632.