THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 •EMAIL: ibo@ibo.nyc.ny.us
http://www.ibo.nyc.ny.us

Testimony of George Sweeting, Deputy Director, New York City Independent Budget Office, Before the New York City Council Committee on Economic Development Regarding Federal Stimulus Spending in New York City

March 1, 2010

Good Morning Chairman White and members of the Economic Development Committee. My name is George Sweeting, and I am deputy director of the New York City Independent Budget Office. Thank you for the opportunity to testify at this oversight hearing on implementation of the 2009 federal stimulus legislation in the city.

IBO has not compiled its own measures of stimulus spending in the city; instead we have largely relied on the federal, state, and city tracking sites and we have not analyzed the implementation of American Recovery and Reinvestment Act (ARRA) in detail. Therefore, the following comments highlight some key issues that have emerged regarding ARRA in New York. First, because of the emphasis on getting projects underway quickly, much of the stimulus money available to New York for job creation and investment has gone into the types of projects that the city was already doing and in some cases projects that were already under development—so-called “shovel-ready” projects. Second because of the temporary nature of the stimulus program, the funds that the city and state have used to avoid greater fiscal disruption will soon be gone although some of the underlying challenges that were covered over with ARRA money remain.

How Much for Work Force Development and Investment

Before turning to questions of how the stimulus funds are being spent in New York City, it is worth reviewing how much stimulus funding was targeted at programs other than direct private sector job creation and investment. Of the $787 billion commonly cited as the value of the ARRA, $297 billion was to be doled out through tax relief to individuals, according to the Tax Policy Center. Provided households spend rather than save their tax cuts, individual tax relief can help spur job creation indirectly by adding to household incomes, thereby increasing—or at least sustaining—aggregate demand for goods and services. A temporary increase in the value of the food stamp grant had the same effect by adding $19 billion to the economy. There were also $66 billion (net) in business tax relief initiatives. Most of the tax changes and the food stamp change were temporary.

Two other major ARRA components provided temporary fiscal relief to states, thereby avoiding tax increases or spending cuts that would have reinforced the economic contraction. The federal government temporarily increased the share of Medicaid costs it covered thereby freeing up dollars in state budgets. The increase in the federal percentage was expected to save states $87 billion over two years. Education was the other area where ARRA provided temporary relief to states to avoid school aid cuts that would likely result in teacher layoffs, with $54 billion available to stabilize state and local education spending over two years. The stimulus bill also included $5 billion to cover 80 percent of increased state public assistance costs if welfare caseloads grow. For states like New York, which needed the stabilization funds to balance last year's budget, the temporary nature of this relief will be a major problem this year when the fiscal needs are even greater and the ARRA relief is largely used up.

Tax relief and fiscal stabilization accounted for roughly $530 billion of the $787 billion allocated through ARRA. Of the balance, some portions were designed to add, at least temporarily, to public payrolls by temporarily increasing federal support for new services, such as funding for expanded educational services (another $22 billion) and hiring new police officers. As a result, the ARRA resources available for direct private sector job creation or for investment in infrastructure and other economic development projects was about $235 billion or less than one-third of the $787 billion in ARRA. The amounts available for such programs to each state and locality are therefore also relatively small compared to the overall stimulus funding for states and localities.

Use of ARRA in New York City for Workforce Development and Investment

Workforce Development. Under ARRA, $3.9 billion was allocated to states and localities to expand their training and workforce development efforts for two years. Most of the additional resources were channeled through existing structures that had been established under the Workforce Investment Act (WIA) of 1998. In New York, the WIA program has focused on general and individual skills training rather than targeting industry-specific skills and the ARRA funds have generally followed that model. Programs to train dislocated workers and other adults needing job skills were allocated $31.8 million for this year. The city has also used $32.2 million in ARRA funds for WIA-related youth employment programs in the Department of Youth and Community Development. With $1.3 million in funding for older workers looking to acquire additional skills, the total ARRA allocation for workforce development is $65 million.

This funding is temporary and the challenges posed by the expiration of the ARRA money can be seen in the fiscal year 2011 budget for workforce development. Last summer, the Summer Youth Employment Program (SYEP) received $18.5 million in WIA funds plus about $10 million in Community Services Block Grant funds which helped to avoid a major cutback in the program. But this year only $7.4 million in block grant funds will be available. The lack of WIA funds combined with a sharp cutback in state funding for SYEP means that this year's program is likely to be much smaller, serving many fewer youth than in recent years. Similarly, the budget for adult training grew for this fiscal year thanks to ARRA, but is projected to fall next year by 40 percent at a time when local unemployment is expected to remain at or above 10 percent.

Economic Development Investment. The city was allocated $121.7 million in Recovery Zone Facility Bonds (RZFBs) that are administered through the New York City Industrial Development Agency (IDA). These are private activity bonds that must be used for projects in designated recovery zones. So far, $102 million has been committed. Because of the emphasis in ARRA on funding shovel-ready projects that can get underway quickly, the RZFB projects are largely ones that were already in the planning stage when the program was established. Three of the selected projects (Albee Square, Arverne by the Sea, and St. Barnabas Hospital Parking Garage), with a total of $63 million in RZFBs, are retail or service developments.

Municipal Financing. ARRA also included authorization of a new type of tax-credit bond known as Build America Bonds (BABs), which can be used in calendar years 2009 and 2010. BABs come in two flavors. In general, the holder of a BAB receives a tax credit equal to 35 percent of the interest received from the issuer. Because of the tax credit, the interest that the issuer must pay to attract buyers should be lower (theoretically it needs to be only 74.1 percent of the interest on an equivalent taxable bond). For certain projects, the city can use a different type of BAB in which the credit is paid directly to the issuer rather than to the bond holder. The city has already issued $2.55 billion in BABs since October 2009, helping to lower the cost of financing its general capital program. Interest rates for the city on its BABs are estimated to have been 15 basis points to 94 basis points lower than tax-exempt bonds.

By making the capital program more affordable, BABs encourage infrastructure investment which creates jobs in the short term and increases potential future economic output. BABs have proved very popular with states and municipalities and there is pressure to extend the program after this year.

Another financing tool made available through ARRA has so far proved less useful for the city. The act authorized the issuance of Qualified School Construction Bonds which are also tax-credit bonds. The city was allocated approximately $700 million each year for 2009 and 2010, but so far the market response has discouraged their use.

Other Transportation Infrastructure. ARRA also provides funding for some important local transportation projects outside the city's budget which is helping to sustain construction employment in the city. The Metropolitan Transportation Authority expected to get $896 million in 2009 for projects in its capital plan, including $312 million for the Fulton Street Station and $79 million for the Second Avenue Subway. A second round is expected in 2010. The Port Authority of New York and New Jersey is receiving $130 million in ARRA funding for some of the initial work on its trans-Hudson passenger train tunnel project known as Access to the Region's Core.

Thank you again for the opportunity to testify, and I welcome any questions you may have.