

Does the Amazon Deal Deliver for New York City Residents?



Finance Division, New York City Council

Raymond Majewski, Deputy Director/Chief Economist

Economic Development Tax Incentives Evaluators Roundtable

October 24th, 2019 – Washington, DC

Evaluating Tax Expenditures

- Plan: Develop an *ex ante* evaluation tool for tax expenditures and economic development programs
- Ambition to fully adapt Timothy Bartik's model for NYC
- November 13, 2018
- A Two Part Plan

Council Oversight of Amazon HQ2 Project

- Background
- Oversight and Evaluation
- The Endgame.
- Post Script: Adapting the Bartik Model for NYC

BACKGROUND

The Players - Amazon

ESDC

**Governor
Cuomo**

EDC

**Mayor Bill
De Blasio**

NYCC

**Speaker
Corey
Johnson**

LABOR

**32BJ,
Building
Trades,
RWDSU**

NYSL

**Senate
and
Assembly**

The Amazon Deal

- Amazon promise to New York City;
 - Ø Investment: \$3.6 billion over 15 years
 - Ø 4 to 8 million square feet of commercial space
 - Ø Jobs: 25,000 jobs by 2029, and up to 40,000 by 2034

Incentives

Incentives

Industrial and Commercial Abatement ("ICAP")

\$830 million for a partial NYC property tax abatement

Relocation and Employment Assistance Program ("REAP")

\$1.44 billion for NYC Business tax credit

Excelsior Jobs Program

\$1.1 billion and \$46 million in investment credits total 1.2 billion

Capital Grant Funds

\$505 million

Opportunity Zone

Defer and reduce taxes to be paid on capital gains

Net Total Tax Incentive \$4 billion dollars

The Process

- State and City are required to Sign NDAs
- Memorandum of Understanding (“MOU”)
- State General Project Plan overrides City land use powers.

The Case for Amazon

- Fosters NYC as a tech center
- Helps develop Long Island City as fourth CBD
- ESDC/REMI cost benefit analysis
 - Ø Jobs: 76,000
 - Ø Tax Revenues vs. Incentives ratio: 6.3/1 or 9/1

OVERSIGHT AND EVALUATION

New York City Council Oversight

Goal

To give the people the public process of evaluating a potential project that was denied by the secrecy of the Amazon deal

Planned Hearings

- Economic Development - “Exposing the closed-Door Process”
- **Finance – “Does the Amazon Deal Deliver for New York City Residents?”**
- Land Use – “Alexa, Skip the Normal Land Use Process”
- Economic Development, Finance and Land Use – “Public Testimony”

Reports

Legislative, Finance and Land Use Division Committee Reports for the Hearings

Finance Division ‘White Paper’ Does the Amazon Deal Deliver for New York City Residents?

“Will Amazon’s arrival actually benefit local residents or simply exacerbate existing structural inequities?”

Joseph Parilla Brookings Institution

New York City Council White Paper Report

- **Title: Does the Amazon Deal Deliver for New York City Residents?**
 - A. Equitable Growth
 - B. Cost and Benefits of Amazon Project
 - C. Amazon as a Partner

Equitable Growth

- **What is left out from NYCEDC and ESD Analysis;**
 - Ø Consider fiscal costs of larger population
 - Ø Consider the impact of increased property values and rent
 - Ø The distributional effects
 - Ø Who gets the jobs?
 - “Focus on fiscal benefits alone is weird because it assumes state and local governments are trying to maximize tax revenue”.
- Timothy J. Bartik

New York City Council Finance Division Economic Development Model

- Bartik 2018. "Incentive Benefits and Costs." Presented at Roundtable of Evaluating Economic Development Tax Incentives. Washington, D.C., October 18.
 - Ø Organize our thinking
 - Ø An aid to briefing elected officials
 - Ø As tool for asking questions in oversight hearing

New York City Council Model

Opportunity Cost

Site was to be used for affordable housing development or could have been used for other tax generating purpose

Unaffected Decisions

Some jobs would have come without incentives, but how many?

Displacement

How does it impact other biz like Retail & Google?

Increased Population

New jobs induces migration to NYC & increases need for Gov't services

Costs Increase

Rents go up, labor costs for local business goes up

Incentive Given to Business

Land + Tax Incentives to Amazon

Effect on Business Decisions

Amazon Expands in NYC

Multiplier

New Jobs create new jobs for suppliers, retail, food service, etc.

Other Economic Effects

Increased demand for labor & housing boosts wages & property values

Additional Income

For local residents who would otherwise not be employed (directly & indirectly)

Increased City Revenue

Pays for new demand for services and maybe more?

Higher Wages & Property Values

Increased demand for labor raises wages & increases demand for property

Speaker Corey Johnson: Finance Committee



COREY JOHNSON
SPEAKER

THE COUNCIL

NY
CTV gov

Committee on Finance

01/30/2019

Ups and Downs of Amazon

Upside

- Strong multiplier – good indirect job creator
- Export industry
- High wage industry
- Helps City and State Tax collection

Downside

- Jobs filled from outside of the City
- Increased population uses up extra tax revenue
- Increased housing prices and increased commercial real estate prices

Amazon as a Partner

- Monopoly and Market Power
- Amazon as a Taxpayer
- Amazon as an Employer

End Game

Labor

State Senate

**Amazon's
withdrawal**

Post Script: Council Bartik Project

1. Learn logic and calculations of model
2. Convert to R to make easier to handle
3. Parameterize quantitatively for NYC
 - About 80 quantitative parameters – incentive design, local economic & fiscal conditions
4. Simulation: REAP

THANK YOU