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TESTIMONY BEFORE THE NEW YORK STATE ASSEMBLY
COMMITTEES ON
REAL PROPERTY TAXATION AND HOUSING
REGARDING THE RPTL SECTION 421-a INCENTIVE PROGRAM
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Chairman Galef, Chairman Lopez and members of the Real Property Taxation and Housing Committees, thank you for this opportunity to present testimony today.

When Section 421-a was enacted in 1971, New York City's population was shrinking, a severe fiscal crisis was looming and several major employers had just left the City. In this environment, the broad consensus of public policy makers was that subsidies such as those provided under 421-a were needed to encourage new private-sector multi-family housing construction.

Twenty-five years later, the economic environment in our City has greatly changed. The residential real estate market is strong. A surge in market rate housing construction across the City has been accompanied by large increases in property values, an expanding population, and a fiscal outlook transformed from the 1970's.

It has become increasingly evident that the 421-a program's incentives need to be revised and updated to reflect these new realities. To assist policymakers in doing this, my staff recently analyzed the distribution of 421-a benefits by geography and level of subsidy. On May 18th I released the results of this review in a Policy Brief.

We found that the bulk of 421-a benefits have been going to developers and purchasers of some of the most expensive housing in the City and that, overall, the amount of affordable housing that has been assisted is relatively small in relation to the value of the subsidies.

Specifically, we found that in Fiscal Year 2005 subsidies were concentrated in the Manhattan luxury market. Manhattan developments received 78 percent of all 421-a benefits even though they accounted for only 48% of the units in the program.

At the same time, the program has produced relatively little affordable housing. In the Manhattan exclusion zone, 421-a recipients are required to contribute to affordable housing either via the 80/20 program or by purchasing negotiable certificates from affordable housing developers.

Developments currently participating in the 80/20 program created approximately 2,100 units of affordable housing. For the years they will be in the 421-a program, they will receive more than \$1 billion in taxpayer assistance, or more than \$520,000 per unit of affordable housing assisted.

We must ask if there are cheaper ways to develop affordable housing in the City.

While the total value of the assistance to create one unit of affordable housing through the negotiable certificate program was between \$42,000 and \$52,000, the average tax savings for each affordable unit created was more than \$58,000 in 2005 alone. In some developments we analyzed, the average public negotiable certificate subsidy for each unit of affordable housing will be more than \$400,000.

Again we must ask if there are more efficient ways of delivering affordable housing using the City's resources.

Elsewhere, the goal of developing affordable housing has been ignored altogether in the 421-a program. In 2005, Manhattan developments south of the exclusion zone received \$24 million in tax savings, with no requirement to help finance affordable housing.

Outside of Manhattan, there are 421-a subsidy concentrations in a number of neighborhoods that, although they may have been struggling when the program began, have recently been experiencing healthy growth and/or gentrification, such as DUMBO, Greenpoint /Williamsburg and Flushing.

Our review raises fundamental questions about the future direction of the 421-a program. With the City's housing affordability crisis intensifying, we simply cannot afford to waste a single dollar of scarce affordable housing development public resources.

Before ending the 421-a program, we should consider possible ways to mend it. We might look at how we can revise the negotiable certificates program.

Fundamental changes to the 421-a program's structure may be necessary. The existing "exclusion zones" might be replaced by an alternative housing assistance trigger that recognizes that local residential real estate markets can change quickly.

For example, the program could require affordable housing contributions by projects anywhere in the City if they meet specified benchmarks, such as sales prices or rents exceeding stated local market values or household incomes.

Finally, I want to express my strong support for requiring buildings that receive 421-a benefits to pay building service workers the prevailing wage. Such a requirement is amply supported by research by the Pratt Institute.

For instance, 147 Chambers Street, with 123 units, is receiving tax savings of \$459,000 this year, even though porters earn only \$10 to \$11 an hour and only the superintendent has health insurance. In comparison, the prevailing wage is \$17.94 an hour plus \$4.76 for benefits including health insurance and 401(k) contributions.

While 80 percent of building service workers across the City earn a prevailing wage, only 50 percent of such workers at buildings receiving 421-a benefits do. I think it is wrong for taxpayers to assist projects like these where workers earn wages that are barely livable.

I want to commend Assemblyman Lopez for his work on this issue, and for including a prevailing wage component in legislation he is currently sponsoring. In that regard, his bill follows the roadmap created in the Greenpoint/Williamsburg development. It also reflects his commitment to create affordable housing at a time we desperately need it.

While twenty percent should be the minimum threshold for affordability, this ratio may not be best for every community. In fact it may need to be higher in some cases, so we should preserve some flexibility. It may take an analysis of local housing markets and development costs to set a ratio appropriate for each community.

The 421-a program was originally designed in the early 1970s to create multi-family housing in a struggling economy where incentives were needed to encourage the growth of residential construction.

Jump ahead thirty years. In 2005, developers and purchasers of multi-family housing received 421-a tax savings worth \$320 million, and since 1998, the annual value of 421-a subsidies has increased by more than \$240 million.

The 421-a program should assist in constructing only market rate housing that would not have been built without government help.

The questions we now face are important but simple: First, does the 421-a program still address the purpose for which it was created? And second, can we take the tax dollars of hard-working men and women across the City and create affordable housing more cheaply?

I hope my testimony today and the report by my office will contribute to the debate over these questions.

Thank you very much.