

Funding for Penn Station Plan Could Fall \$3 Billion Short, Report Says

A new report, commissioned by an Albany watchdog group, is the latest volley in an intensifying debate over one of the nation's most ambitious development projects.



By Patrick McGeehan

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New York's plan for renovating and expanding Pennsylvania Station in Manhattan will produce only enough revenue to cover about half of the improvements to the shabby station, a new financial analysis concluded.

A shortfall that big would require the state to come up with more than \$3 billion from other sources to pay for the station overhaul, a favorite project of Gov. Kathy Hochul that is estimated to cost at least \$7.5 billion, the new analysis released Wednesday found. The research also estimated that developers of the office towers that would surround the station would receive tax breaks that could total \$1.2 billion. The state plans to use payments from those developers to defray the cost of refurbishing the station.

The assessment could provide ammunition to critics of the governor's plan, who include community leaders and tenants who might be displaced by one of the largest real-estate projects in the nation. Ms. Hochul has called for the project to be fast-tracked, saying it would transform Penn Station from a "hellhole" into a modern, spacious transit hub.

Conducted by researchers at the Schwartz Center for Economic Policy Analysis at the New School, the analysis was intended to fill in gaps in the incomplete plan state officials have shared so far. The study was commissioned by Reinvent Albany, a watchdog group that has pressed for more transparency about the massive redevelopment proposal.

Reinvent Albany and some community leaders in Midtown have objected to Ms. Hochul's plan, painting it as far too generous to Vornado Realty Trust, a large office developer whose chief executive, Steven Roth, has donated to the governor's election campaign. Vornado owns most of the sites where super-tall office buildings could be constructed under the plan.

Vornado did not respond to a request for comment. Mr. Roth has called the redevelopment of the Penn Station area Vornado's "Promised Land."

Ms. Hochul's plan, inherited from her predecessor, former Gov. Andrew M. Cuomo, would allow developers to build 10 super-tall towers in the blocks surrounding Penn Station in Midtown. Instead of paying property taxes to the city on those buildings, the owners would make payments to the state that would help cover part of the costs of renovating and expanding the station.

But the state agency overseeing the project, Empire State Development, has not detailed the plan's financial terms. Without specifics, some elected officials and community leaders have questioned whether the plan is feasible and how much risk it could load onto taxpayers.

"What's the risk? How much is this going to cost the public? And what's the extent of the subsidies that the developers are receiving," said Brad Hoylman, a Democratic state senator whose district surrounds Penn Station. "These are all questions that need to be answered before E.S.D. votes to approve the general project plan."

Matthew Gorton, a spokesman for the agency, said that vote is likely to occur at its next board meeting on July 21. He said the agency will disclose the financial details of the plan before then.

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“The state is enhancing the city’s tax base by unlocking the real value of the long-neglected area, which will improve the lives of millions of New York commuters,” Mr. Gorton said. “The state has worked hand-in-hand with local leaders to ensure that the city and the community surrounding Penn are powerful partners in this long-overdue revitalization.”

A report issued in May by the city’s Independent Budget Office said that the new buildings may not produce enough revenue to keep up with the state’s bills for the work on the station. In that case, New York taxpayers might have to fill the gap, that report concluded.

Reinvent Albany turned to researchers at the New School who had previously analyzed a similar arrangement the city used for the development of Hudson Yards, a massive commercial development a few blocks west of Penn Station. Those researchers, Bridget Fisher and Flávia Leite, applied that model to the limited description state officials have given of the Penn Station plan.

At Hudson Yards, the maximum tax break available to developers now is 20 percent, Ms. Fisher said. Those discounts gradually decline 16 years after a building is finished, she said.

By the same formula, developers of the nine commercial towers around Penn Station — one is slated to be a residential building — would receive an aggregate tax break of \$1.2 billion, Ms. Fisher said. Through 20 years after construction is completed, the net payments to the state would total about \$5.4 billion, the analysis found.

But the state has promised that the city would not lose out on any of the property taxes it would have received from the sites around Penn Station. That would reduce the state’s revenue from the plan by about \$1.3 billion, leaving just \$4.1 billion to spend on the station, according to the analysis.

Ms. Fisher said that she and her fellow researcher took an optimistic view that the development project would proceed as planned, without being interrupted by a recession or undermined by cost overruns at Penn Station.

“This is the high bar,” Ms. Fisher said. “It assumes that everything goes right for the state.” But she added, “Under less than perfect conditions, these potential revenues will likely go down.”

State officials have estimated New York’s share of the cost of renovating and expanding the station to be between \$7.5 billion and \$10 billion. New York has agreed to pay about one-fourth of the total costs, with the rest to be supplied by the federal government, Amtrak, and New Jersey. Amtrak owns the station and New Jersey Transit is one of its biggest users.

Before the pandemic, Penn Station was the nation’s busiest transit hub, overwhelmed during rush hours by crowds of commuters jostling on and off trains. No architectural gem to begin with, the 54-year-old underground station had deteriorated to an embarrassing condition.

Last month, the Metropolitan Transportation Authority asked for proposals to design the renovated station. Those proposals are due by July 28 and the state intends to choose a designer later this year.