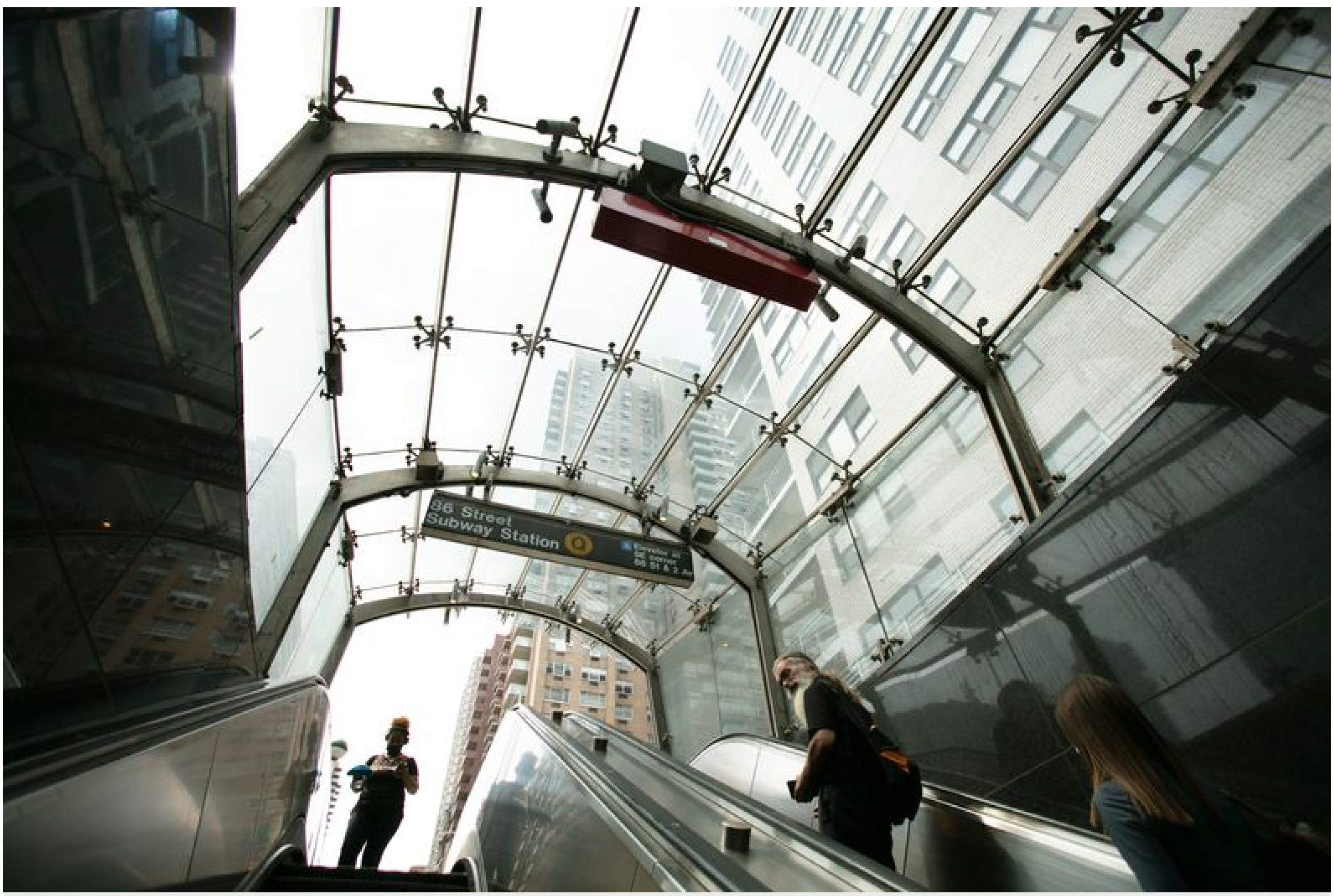
June 23, 2022 12:00 PM

# Op-ed: Fund better transit with real capital dollars, not schemes

Rachael Fauss






Buck Ennis

Tax-increment financing, or TIF, is a type of "value capture" being touted as a cost-free panacea for financing transit megaprojects in New York City. But TIFs are not free money; they are a diversion of future property taxes from the city's general fund to dedicated financing for transit improvements.

TIFs, like most "free money" schemes, are a seductive idea. Why shouldn't the Metropolitan Transportation Authority get back some of the value a new subway line adds to surrounding real estate?

For a start, it is hard to figure out how much value new transit adds to an already developed area versus an upzoning for an area with no new transit.

RELATED ARTICLE


Real estate gains could help fund Second Avenue subway extension


Second Avenue subway steams ahead as major funding questions remain

For instance, Penn Station has been a major transit hub for more than a century. Why would refurbishing Penn Station add substantially more value to its environs rather than a gigantic proposed upzoning? Does the math showing this even exist? If it does, why hasn't the public or the City Council had a chance to check the sums and assumptions?

The biggest example of value capture in New York City is Hudson Yards, which is near Penn Station. There the city allowed real estate developers to make payments in lieu of taxes, or PILOTs, exempting them from much more expensive property taxes. The PILOTs pay the interest on bonds the city borrowed to pay for the extension of the 7 train line.

Hudson Yards' developers will reap more than $1 billion in tax breaks, according to the Schwartz Center for Economic Policy Analysis, that will no longer go to fund city services including education and sanitation.

The problem with using PILOTs to pay for government bonds is that the taxpayer is forever on the hook for the borrowed money.

When the Great Recession hit, Hudson Yards' developers could not make the promised payments, and city taxpayers paid $374 million in debt payments, according to the city's Independent Budget Office.

If value-capture schemes fail, taxpayers are left holding the bag. This is really important because megaprojects are prone to cost overruns. Take the MTA's East Side Access project, which has ballooned to an unfathomable $11 billion. If PILOTs are pegged to initial cost estimates that are set too low, someone is going to have to make up the difference—and it won't be developers.

The MTA has sought ongoing authorization to use value capture to pay for future transit projects, which they won in the state budget.

Why can't we just fund transit projects with traditional capital grants from the state or the city? Then there would be real honesty about exactly who is paying and who is benefiting.

*Rachael Fauss is a senior research analyst at Reinvent Albany, which advocates for transparent and accountable New York government and increased transparency in New York City.*