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OPINION

301

Penn Station plan is the worst deal since Manhattan was sold for $24

By Nicole Gelinas

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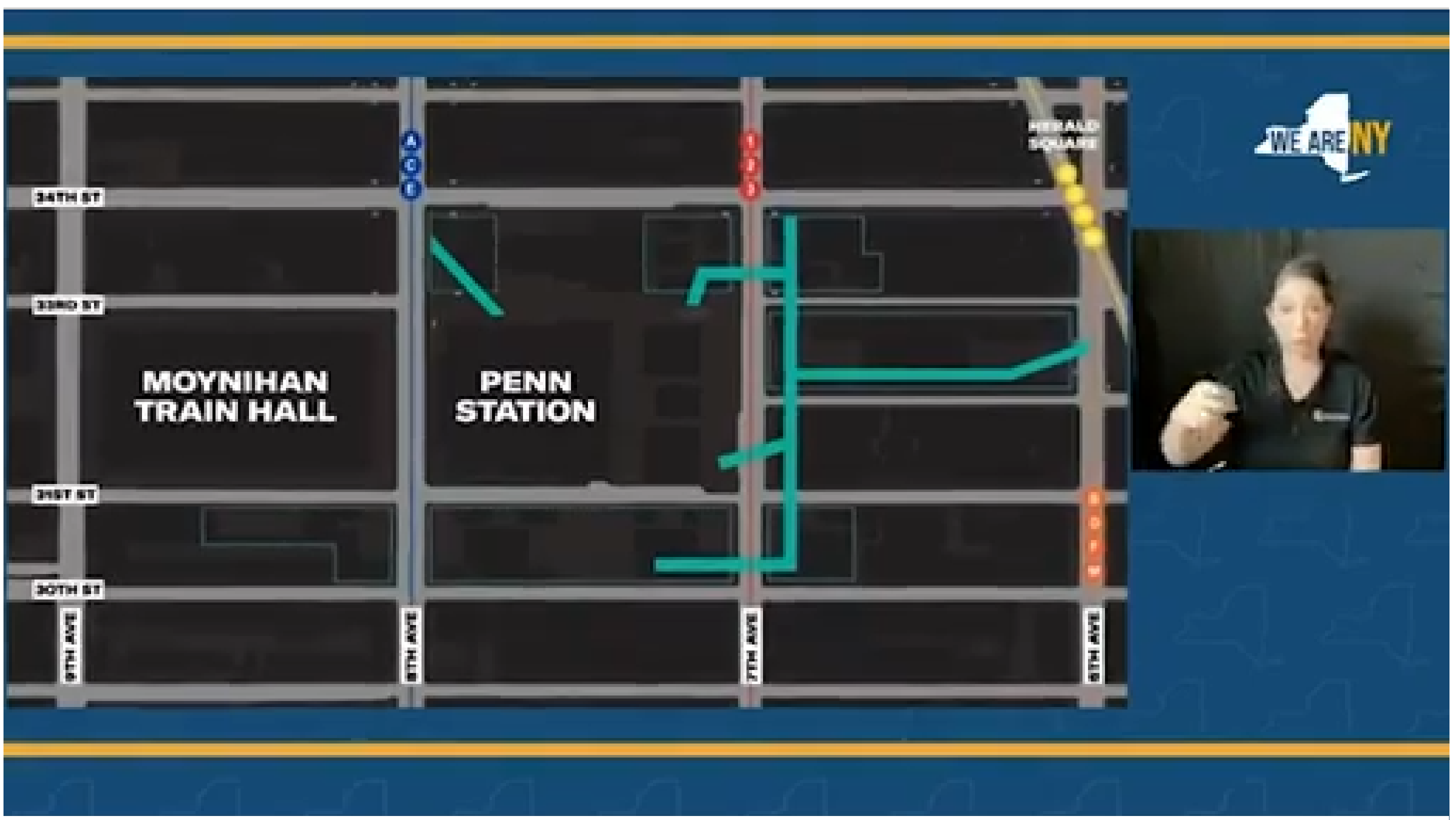

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Last week, Gov. Kathy Hochul and Mayor Eric Adams had some supposedly good news for their constituents: a plan to revamp the long-reviled Penn Station and use this infrastructure investment to revive the long-troubled surrounding area. But a closer look reveals a plan with few benefits for Manhattan residents and commuters, one that will increase state government power and bureaucracy at the expense of the private sector and good governance.

For the city, the agreement represents one of the worst real estate deals since Native Americans sold Manhattan.

The concept, which has been around since the Cuomo administration, appears elegant enough: Let commercial developers build eight tall towers around Penn Station, a major regional commuting hub that, pre-pandemic, processed 600,000 daily trips, and then use the tax dollars generated by that development to improve the station itself. The project would turn the cramped, dark, multilevel space into a single, airy floor, build new entrances as well as more escalators and elevators, and allow room for an above-ground public plaza and “shared streets,” including bike lanes, to untangle traffic.

As the mayor said, “the new vision for Penn Station is to our generation what the Empire State Building was to previous generations: a symbol of our resiliency and a project that will define our city for decades to come.”

Indeed, it will define the city, and the state, too — as having bloated and opaque governments that revel in conferring special favors.

New York residents oppose the redevelopment plan for the Penn Station area.

William Farrington

Here’s how public infrastructure investment should work: Let’s say the state and city determine that, despite New York’s current 35.7% office worker occupancy and subway and commuter rail ridership stuck at about 60% of normal capacity, Manhattan will recover its office market in the next decade or so and continue to be a regional destination for white-collar workers indefinitely. The state and city could help that future along if they make Penn Station more pleasant for commuters. In that case, the state and city could borrow against future tax and fee dollars to make these long-term investments.

The plan allows commercial developers to build eight tall towers around Penn Station.

New York Governor's Office

Tax dollars from the development would be used to improve the station's quality.

Vornado

For example, the city could borrow implicitly against future property tax revenues and supplement this funding with state and federal infrastructure grants. These federal, state and city investments would make the surrounding private-sector property worth more over time, especially if the city were to rezone the surrounding area to allow private-sector owners to build more modern towers. Presto, a municipal finance miracle. The city's resulting higher property-tax revenues, plus higher state and city income tax and sales tax revenues from new commuters, would allow the state and city to repay the debt incurred for the investments.

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But that’s not what the city and state are doing. Instead, they’re taking a Rube Goldbergian approach that makes no sense except from the perspective of municipal cronyism. Rather than reaping higher property taxes resulting from a revamped Penn Station and surrounding area, the city will sign the land over to the state for up to 80 years. The state, in turn, promises to make up for the lost revenue via a new annual subsidy payment to Gotham.

In practice, this deal means that the city is giving up a big chunk of its predictable, stable property tax revenue — the only local tax that the city, not the state, controls, and one that accounts for nearly half of Gotham’s annual tax dollars. In exchange, the city will depend more than it already does on a far more volatile revenue source: state income and sales taxes, which fluctuate more with business cycles.

New York state is a much more powerful political entity than New York City. A decade or two hence, the state, for example, could decide to reduce another form of aid to the city to account for the payment it must make to replace the property tax shortfall. Adams is thus giving up one of his only fiscal powers — the ability to set and collect property taxes — and making the city even more dependent on the legislature and governor.

The city is also giving up the political power to zone. The city, not the state, generally decides how dense an area can be, what it can be used for, and whether a portion of a public street should be used for parking, travel, or a pedestrian plaza.

Mayor Eric Adams agrees Penn Station could use some improvements.

Robert Miller

Now Albany, in the form of a new, unaccountable state entity — the agreement envisions a subsidiary of the state's Empire State Development Corporation (ESDC) called DevCo to oversee the project — will determine such uses across much of a 12-block area. DevCo will have four state appointees and three from the city, which means the state will be in charge. DevCo won't be all that different from the state bureaucracy that has long controlled things at the World Trade Center, both before and after 9/11. It's a structure under which the city has long chafed because of its lack of control over streets, policing and tax dollars.

Condemn and seize

ESDC is involved because of one immense power it holds under existing state legislation: the power to condemn and seize. The state and city have no intention of simply rezoning the area around Penn and letting market forces determine what to build. Instead, ESDC will likely use its powers to condemn and seize private property, not for transit use, but to allow private-sector developers to build on it under long-term leases.

purchase with the current property owners and/or through the exercise of eminent domain."

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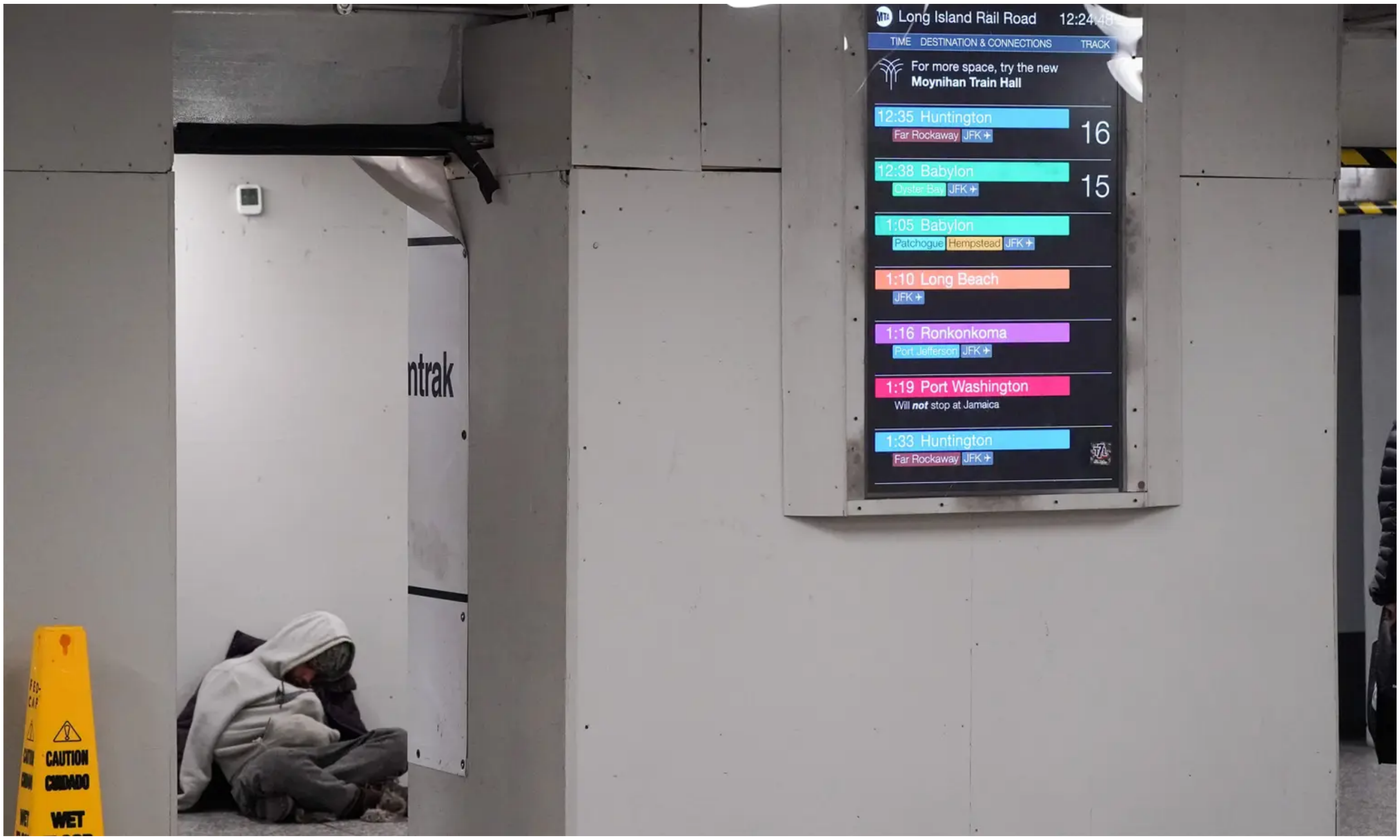
As it happens, the other five sites are controlled by Vornado, a major real estate developer whose top executive has donated nearly $70,000 to Hochul (and previously donated the same amount to her predecessor, Gov. Andrew Cuomo).

Vornado isn't objecting to the seizure of its own property because it doesn't want to develop its five sites piecemeal, under current or future zoning laws, and pay higher local property taxes as the value of its property increases. It wants a full campus under its control under a long-term lease with the state, similar to what Hudson Yards has to the west, built by competitor Related. The state and city are essentially handing Vornado such a campus.

But isn't this just the price the city must pay to get the private sector to foot the bill for all these improvements to Penn Station? Not exactly. Note the agreement's wording: "funding for the station, vibrant open space, and public-realm improvements [will] come in part from private development."

The revenues from the new development will pay for "100%" of street and sidewalk improvements, half of transit connection improvements, such as new corridors and entrances … but just 12.5% of the Penn Station project itself.



Nearly 200 residents in over 100 apartments will get the boot once the redevelopment is complete.

Robert Miller

Gov. Kathy Hochul has received large campaign donations from Vornado.

Robert Miller

"In part," indeed.

As it happens, it's relatively cheap to build a sidewalk or to punch in a new entrance to a transit hub, especially if the new entrance or passageway is part of a new office building. The property and income taxes generated by existing and future development around Penn Station would already generate enough revenue for the city and state (the latter through the Metropolitan Transportation Authority) to pay for these modest improvements.

The expensive, multibillion-dollar project is the Penn Station part, which Vornado and its future partners will barely fund. After all this trouble, the bulk of the money for the showpiece project will come from the state, the city, and the federal government.

Little improvement

For all these billions in investment, moreover, Penn Station won't really improve that much. Yes, the new configuration will allow more light, air and space, but it won't get more trains to transit system, rather than multiple fiefdoms controlled by separate, poorly coordinated New York and New Jersey entities.

The plan brings very minimal benefits to commuters and residents.

Levine-Roberts/Sipa USA

Vornado Realty Trust avoids paying higher local property taxes as the value of its property increases.

Robert Miller

The plan will lead many businesses to relocate from the area.

Moreover, any improvements to Penn will be constrained by the fact that Madison Square Garden will continue to sit atop it, limiting the possibilities for a light-filled atrium.

Still, at least Vornado and its partners will be paying more in property taxes than they otherwise would have done, in return for all this great new infrastructure, right? Actually, no.

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Rather than paying property taxes to the city, Vornado and its investment partners will provide “payments in lieu of taxes” (PILOT) to the state. The state and city refuse to say what this PILOT tax rate will be. Historically, PILOTs are a way to offer under-the-table tax breaks. Hudson Yards, for example, has gotten more than $1.1 billion in such property tax reductions, according to a New School estimate. Do you think Vornado will settle for anything less?

But won’t the new development help bring new people to Midtown? No — in fact, the city seems to be destroying itself in an effort to save itself. The table of businesses that the project will displace runs 23 pages long. Via eminent domain, ESDC will likely kick out nearly 10,000 workers across 473 businesses, many of whose employers can’t afford premium class-A rents; 206 residents in 128 apartments will also get the boot. Restaurants, bars, middle-class apartments, a church and existing public plaza space all face the wrecking ball as well.

The state and city excuse this destruction by saying that the area is blighted by crime. Hochul, for example, calls Penn Station “scary.” She’s right, but it’s scary because the city and state refuse to prosecute crime and to tackle untreated mental illness, leaving people increasingly free to buy, sell and use drugs on the street, aggressively panhandle, and engage in violent confrontations with one another.

So, to sum up: New York City is giving away future property tax revenues and control over a big swath of Midtown property to the state in return for modest street-level infrastructure improvements that it could have paid for itself with the property taxes it was already collecting from the area, and with plenty left over for other government spending.
In return, it will get a cosmetically improved Penn Station, at a cost of billions of dollars, plus new, heavily subsidized real estate to compete with commercial properties to the east, just as Hudson Yards does.