National Employment Law Project
Fiscal Policy Institute
Good Jobs New York

For Immediate Release: October 5, 2011
Contact: Paul Sonn, National Employment Law Project, 212-285-3025 x351 (w); 917-566-0680 (c)
James Parrott, Fiscal Policy Institute, 212-721-5624 (w); 917-880-9931 (c)
Bettina Damiani, Good Jobs New York, 212-721-7996 (w); 347-432-0315 (c)

BLOOMBERG ADMINISTRATION RELEASES FLAWED LIVING WAGE STUDY

Study Ignores Basic Errors Flagged Months Ago and Changes to City Council Living Wage Proposal

NEW YORK – Ignoring basic errors to which it was alerted months ago and subsequent changes in the New York City Council's living wage proposal, the Bloomberg Administration today released its flawed living wage study. Policy experts criticized the study, believed to be the most expensive taxpayer-funded wage study in U.S. history, as a lost opportunity and poor use of city resources.

In May, a team of economists and development experts released an analysis for the Bloomberg Administration detailing fundamental flaws in the factual assumptions and research methodologies that its research team had proposed for the study. However, the final study released today ignores those warnings and uses the same flawed methodology. Moreover, the study is even less relevant in light of changes to the living wage proposal announced this month that further clarify that the types of development projects that are the focus of the bulk of the study simply would not be covered.

"The study and its outlandish job loss projections are complete junk science," **said Paul Sonn, legal co-director of the National Employment Law Project.** "This is EDC's CityTime contracting scandal--overpaying outside consultants to analyze an imaginary proposal to distract attention from the fact that the city wants to hand out billions in tax breaks but can't figure out how to get the companies to pay non-poverty wages. We're baffled why the Bloomberg Administration failed to have its high-priced consultants fix the errors that were flagged in their study months ago."

"The study's real estate analysis is so fraught with dubious assumptions it should be nominated for a science fiction award**," said James Parrott, chief economist at the Fiscal Policy Institute.** "It takes place in an unrecognizable New York City, where real estate values never rise and 40,000 retail jobs weren't added over the past decade. Who would have thought that $10 an hour wages could sap the animal spirits completely out of real estate developers?"

"How ironic: an administration that has backed giant subsidy packages to some of the wealthiest corporations in America supports a study that belittles a slight wage increase for the city's poorest workers," said **Bettina Damiani of Good Jobs New York**. "If struggling New Yorkers can't get a leg up working at subsidized mega-developments, what does that say about the city's economic development priorities?"

"Why would you spend $1 million on a study and not look at the actual experiences of cities like Los Angeles and New York with wage standards on major projects?" **continued NELP's Paul Sonn**. "Just this week, the city announced that developers are eagerly competing for the Willets Point mega-project – despite the fact the Bloomberg Administration has already agreed to require wage standards for building service and construction workers on the project."

The following basic methodological and factual errors – which were called to the Bloomberg Administration's attention in May – are evident on the face of the report:

1. **Erroneous characterization of NYC living wage Proposal**

- The analysis erroneously focuses on estimating the impact of the proposed policy on New York's ICIP/ICAP as-of-right tax abatement program. (The former ICIP program is now renamed ICAP.) However, this subsidy program was never covered by the law – a fact made all the more explicit by the recent City Council amendments to the proposal – and it operates very differently from those subsidy programs that would be covered. This critical misconception renders the study's job loss simulations baseless. For inexplicable reasons, the study completely ignores the major projects receiving discretionary subsidies, which are the real target of the legislation.

- Much of the analysis hinges on the claim that the enforcement and liability provisions of the New York City living wage proposal are significantly different from those in other cities – and that those differences are likely to lead to serious harmful effects, including preventing developers from obtaining financing for projects. These allegedly unprecedented and harmful requirements provide that: (1) developers that receive subsidies are jointly responsible for ensuring that tenants or contractors pay the living wage; and (2) developers can potentially face revocation of their subsidies if contractors or tenants at the project persistently violate the living wage. However, contrary to the study's claims, there is nothing at all unprecedented about these approaches, which are already in use in New York and other cities. For example, under New York's 421-a subsidy program, developers in New York City are already required to ensure "that all building service employees employed at the building, whether employed directly by the applicant or its successors, or through a property management company or a contractor, shall receive the applicable prevailing wage for the duration of the building's tax exemption." N.Y. Real Property Tax Law, 421-a(8)(b). Similarly, at May's city council hearing, Donald Spivack from the City of Los Angeles redevelopment agency explained that their agency is authorized to revoke a developer's subsidy if living wage violations persist on its project. Thus, the study's critical assumption that the current living wage proposal is qualitatively different from existing wage policies in New York and other cities is false.

2. Failure to analyze actual business assistance wage policies in New York, Los Angeles and other cities

- The study fails to examine the most important evidence of how wage standards affect development projects: the actual experiences of cities like Los Angeles, San Francisco and New York in extending wage standards to major projects. These case studies were repeatedly recommended to EDC's researchers as especially appropriate for close examination. As noted, a representative from the City of Los Angeles redevelopment agency testified about L.A.'s actual experiences at the New York City Council's May hearing on the bill. It is baffling why the study contains no interviews with these cities' development agencies, their developers, and their tenant businesses on their experiences with real life projects.

- Equally surprising, the study completely ignores the fact that New York City is already requiring wage standards – on all projects under the 421-a subsidy program, and on a project-by-project basis on mega-developments such as Willets Point, Coney Island and Domino Sugar. Indeed, just this week, the city announced that developers are eagerly competing for the Willets Point mega-project – despite the fact the Bloomberg Administration has already agreed to require wage standards for building service and construction workers on the project. These experiences are critical evidence for assessing the impact of a broader New York City wage law – yet the study bizarrely ignores them.

3. Discredited economic modeling

Ignoring the qualitative and case study evidence of experiences with living wages, the study instead attempts to glean the impact of such policies from general, regional labor market data. But for its labor market impact assessment, the study relies on a methodology drawn from researcher David Neumark's past research that has been shown to be unreliable. Because of erroneous assumptions about the coverage of living wage policies, his model detects unrelated trends that are occurring in municipal and regional labor markets and wrongly attributes them to living wage policies. In reality, when an accurate definition of living wage policy coverage is used and applied across all cities with living wage laws, researchers find that there is *no* statistically meaningful effect on overall employment in these cities.

For more detail on these errors and omissions in the Bloomberg wage study, please see the May analysis by the team of economists and development experts.

# # #