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Paterson backing off on Empire Zone restrictions

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ALBANY—Gov. David A. Paterson is poised to back away from a plan to boot more than 2,000 companies from the state's Empire Zone economic development program after hearing from industry groups that it would contribute to job losses at a time when the state's economy is hobbling.

The governor's economic development advisers instead are pushing a compromise to Paterson's December proposal demanding that companies already getting Empire Zone benefits invest at least \$20 for every \$1 in state tax breaks and other incentives they get for being in the zones.

Rather than applying the new edict retroactively, which would oust an estimated 2,100 companies, including at least 300 in the Buffalo area, the new alternative would apply the stricter requirements only to new Empire Zone applications, a process that actually began last year for new firms seeking benefits.

The plan, according to sources briefed on the matter, also includes a new provision to help new companies more easily attain that 20-to-1 ratio.

Under the plan, money would be saved by eliminating the dozens of local Empire Zone offices that now administer the program, replacing them with a central state office.

Also, the program would target certain key industries — manufacturing, agribusiness and financial services, among others — for benefits while limiting tax breaks for retail, some real estate endeavors and utility companies, sources said.

The Paterson administration declined to comment Monday. "It's part of the ongoing negotiations," Errol Cockfield, a Paterson spokesman, said when asked about the latest Empire Zone plan.

Changing the Empire Zones program, which has been criticized as corporate welfare with dubious success rates, was both a major reform effort for Paterson and a budget-balancing tool.

His plan would have eliminated nearly 25 percent of companies now getting the incentives, resulting in \$272

million in savings for the deficit-ridden state budget in the coming fiscal year, which begins April 1. Lawmakers say Paterson can use federal stimulus money to plug the hole created by backing away from the Empire Zone plan.

Negotiators described the Empire Zone situation as a fight between Paterson's economic development advisers and his budget office, which has to resolve a more than \$14 billion deficit.

Some business groups across the state, as well as many local government officials, including Buffalo Mayor Byron W. Brown, have been furiously rallying against Paterson's Empire Zone changes. They insist the changes would halt development in many blighted areas and cost small and large employers tax breaks they insist helped lure them to some upstate communities. In the Buffalo area, developers threatened to back away from projects they'd been planning.

The changes to Paterson's plan came out of a recent meeting in Buffalo called by Robert Wilmers, chairman of the Empire State Development Corp., the state's lead economic development agency. The agency declined to comment.

"It was an attempt by the administration to find common ground to back away from some of the more egregious elements of the governor's plan," Assemblyman Robin Schimminger, D-Kenmore, chairman of the Assembly economic development committee, said of the session, which he did not attend.

Schimminger said the governor's original plan would have led to economic "de-stimulus rather than a stimulus plan for New York. It should be rejected."

Senate sources said the governor's plan also has had trouble getting traction among his fellow Democrats in the 62-member house.

But critics of the Empire Zone program were upset that Paterson is retreating.

"They shouldn't be backing away from it. They should fight for it so they could achieve some significant change because right now it's just a terrible waste of money," said Elizabeth Lynam of the Citizens Budget Commission, a watchdog group funded mostly by New York City business interests.

The group last year said 60 percent of Empire Zone companies couldn't meet their own job targets. Lynam said especially now, given the economy, the state can't afford to waste economic development dollars.

"We're running an ineffective program that almost everyone acknowledges needs major reforms. So what's the problem?" she said.

In December, state officials pushed the tougher qualification standards as a way to rein in what critics say has been a costly program running out of control.

Also, critics say, many companies get benefits for investments they would have made even without the lucrative incentives, which can include sales tax breaks, property tax abatements, investment tax credits and up to \$3,000 in wage tax credits per employee.

The program, with more than 9,000 companies taking part, cost the state \$600 million last year, with expenses rising 10 percent a year. One component of the talks is to also reduce some benefits as a way to save money, such as lowering property tax abatements offered to some companies.

While the administration is moving to undo Paterson's 20-to-1 ratio mandate for companies already in the program, sources said the state wants to increase its oversight of Empire Zones to ensure that companies meet at least 90 percent of the job-creation targets. Those not meeting the targets will have to provide an explanation to the state.

What happens for failing to meet the job levels then is uncertain, though the state does have the legal authority to decertify companies in the zones. Industry officials believe, however, that the state's current economic malaise will provide a legitimate excuse for companies to fail to meet job goals in the program. While companies applying for the first time have to meet the 20-to-1 investment requirement, the new plan also would make it easier to attain that goal by only counting tax credits Empire Zone firms actually use—as opposed to including all those they qualify for but may not use — when calculating their investment costs.

Paterson's Empire Zone plan has met much resistance, especially among upstate lawmakers. "It's particularly harsh on upstate, where these benefits begin to level the playing field for those who would invest upstate," said Assemblyman Sam Hoyt, D-Buffalo.

Critics of the original Paterson proposal said it would be unfair to alter incentives for companies already enrolled in the program. "You can't change the rules in the middle of the game," Hoyt said.

There are 82 Empire Zones around the state, including 11 in Western New York counties. Local zones include two in Buffalo as well as one each in Lackawanna, the Town of Tonawanda and Niagara Falls.

A number of Buffalo-area business executives last month said the original Paterson Empire Zone plan would force them to halt a number of projects, including an \$11 million conversion of the former AM&A's downtown warehouse to housing. Those getting zone benefits have included auto insurer Geico Corp., power producer NRG Energy, FedEx Corp.'s FedEx Trade Networks, and Coca-Cola Bottling. All would see their tax breaks disappear if Paterson's original plan is approved, local officials have said.

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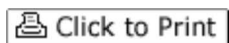
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