CBC RELEASES REPORT ON NYS ECONOMIC DEVELOPMENT PROGRAMS

Modest Reforms Have Been Adopted, But Most Investments Continue To Be Problematic

New York, NY – February 19, 2015 – The Citizens Budget Commission (CBC) today released a report on New York State’s economic development programs. Titled “Bigger Not Better: New York’s Expanding Economic Development Programs," it analyzes the changes in economic development spending from 2010 to 2014 and the extent to which problems previously identified have been constructively addressed. CBC has noted problems with a number of the State’s economic development programs and urged better coordination, standardized metrics, payment only for results, and more transparency and disclosure through a unified economic development budget.

In 2010 New York State economic development investments – operating expenses, capital projects, and forgone revenues through tax expenditures – amounted to $7.0 billion including $3.4 billion in locally-directed activity. By 2014 annual economic development investments grew to an estimated $8.1 billion, an increase of 15 percent from 2010.

In analyzing the State programs, the report reaches the following conclusions:

• Three modest improvements have been made through the replacement of Empire Zones with the Excelsior program, modification of the New York Power Authority economic development programs, and the creation of the Regional Economic Development Councils. Governor Andrew Cuomo and the Legislature deserve credit for the reforms, but additional disclosure requirements, accountability measures, and program evaluations are required. In addition, the qualifications for Excelsior tax credits, already weakened once, should be strengthened.

• The State expects to have spent $2.4 billion on economic development tax expenditures in 2014, a $560 million, or 30 percent, increase over 2010. While the Governor and Legislature have added new tax breaks, this growth is also driven by increases in the State’s existing programs. Expansions of tax credits for film production, the Investment Tax Credit, and other existing credits accounted for $245 million of the increase. These programs are expanding despite ongoing concerns about their efficacy and the presence
of loopholes that have allowed programs to be used more broadly than originally intended. Because tax expenditure programs represent foregone revenues and not direct spending, they undergo little scrutiny during the State’s annual budget process. Researchers are, at best, skeptical of the benefits these programs claim to deliver.

- Beyond expanding the size and scope of many existing economic development tax incentives, Governor Cuomo and the Legislature have created new programs. The largest of these is Excelsior, which is estimated to cost $200 million in 2014. Smaller programs include START-UP New York; the economic transformation program for the redevelopment of closed prison facilities; Innovation Hot Spots; and sales tax-free shopping in "Taste New York" stores filled with New York’s agricultural products. Although these programs are small now, they have the potential to cost the State much more as they expand. But their economic benefit is unclear. The most problematic of the new programs is START-UP New York, which is estimated to cost $59 million in 2014.

To improve the cost-effectiveness of the State’s large investment in this area the framework for designing and evaluating economic development programs identified by CBC in 2011 should be utilized. All investments should be coordinated and aligned to regional strategies, performance metrics should be standardized for all programs and across all regions, and more comprehensive disclosure requirements should be put in place so that the costs and benefits of each project can be weighed. In addition, all programs should be reevaluated for effectiveness before existing programs are increased or new ones are added.

"It is clear New York State's economic development programs are growing in number and cost," said CBC President Carol Kellermann. "What is unclear is whether the investments are worthwhile."

"The State should continue to improve its economic development programs," said Elizabeth Lynam, CBC’s Vice President and Director of State Studies. “Better accountability, transparency, and more rigorous evaluation would help ensure a return on investment for taxpayers."

The full report is available at www.cbcny.org. For further information, contact Kevin Medina at 212-279-2605 x342.

*Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.*