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A Blueprint for Economic Development Reform

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State and local governments in New York State spend $8.6 billion annually, including direct spending and tax expenditures, in the name of economic development. The Governor's Fiscal Year 2018 Executive Budget adds $644 million in economic development spending in fiscal year 2018 and $1.5 billion in cumulative future tax credits. In response to the growth in spending and recent scandals, State legislators have expressed concern about the lack of metrics on and measurable results from the State's investments. If legislators want to pursue meaningful changes to State and local practices, they should follow this blueprint for reform.

CITIZENS BUDGET COMMISSION

1. Establish a Unified Economic Development Budget (UEDB) to Capture Fully All State and Local Costs

Currently, the Citizens Budget Commission (CBC) prepares the most comprehensive view of state and local economic development efforts statewide; however, the usefulness of this presentation is limited because it is based mostly on available data published for past years.[1] A UEDB should be part of the Executive and Enacted budgets and should include prospective information showing the costs of all economic development programs for the coming fiscal year.[2] To capture the full scope of economic development costs, a UEDB should bring together tax expenditures and spending at state agencies and authorities, as well as the value of discounted power offered by the New York Power Authority. While some future costs are estimated as part of the budget process, others, such as tax expenditures granted by the State and public authorities, would have to be calculated for the first time. This comprehensive view will provide an opportunity for lawmakers and the public to better understand the magnitude of economic development spending efforts and to prioritize programs based on results.

2. Use Standardized Metrics Across Economic Development Initiatives

Currently, requirements for performance measurement and reporting differ from program to program, leading to difficulty in comparing the results of different economic development investments. Standardized measurement of results should include annual actual results (such as current jobs compared to jobs when the incentive began) and results against planned performance. Standard definitions for job creation and retention should apply across programs, and metrics should differentiate between full-time jobs, part-time jobs, and temporary jobs, including construction jobs. In conjunction with measurement of project results, Empire State Development (ESD) should measure broader outcomes for each of the state's 10 economic regions, including but not limited to growth in targeted industries, overall economic growth, and changes in poverty levels.

Reporting for the Excelsior Jobs Program is a good model to follow, because it includes most of the metrics necessary to have a complete picture of recipients' commitments, actual performance, and incentives issued.[3] Another good example is the downloadable data on Industrial Development Agency (IDA) projects provided on the Office of the State Comptroller (OSC) website, although quality metrics should include annual numbers, and not just totals.[4] See Appendix A for a recommended list of metrics.

3. Publish a Database of Deals to Shine Light on Recipients of Incentives

A "database of deals" should bring together data on funds disbursed and committed to each recipient in each program, along with metrics showing project progress and results. Like the UEDB, this should include direct subsidies, tax expenditures, spending by authorities, and NYPA power discounts.

Ideally, the database would also include local benefits and those from IDAs and Local Development Corporations (LDCs), which make up more than a quarter of the cost of economic development statewide. These entities already report this information to OSC and the Authorities Budget office (ABO), albeit in a more limited form.[5]

This database should be user-friendly, including being searchable, sortable, and downloadable in a machine-readable format. Best practices from other states include the comprehensive information included in Illinois's database, the format of Wisconsin's database, and the one-click exportability of Maryland's database.[6]

4. Improve Program Design

Improving the design of economic development programs should follow three best practices: provide benefits only after private sector investment occurs, standardize eligibility, and review results.

First, benefits should be provided retroactively, to pay for actual performance rather than speculative projections of growth.[7] In addition, program eligibility guidelines should be revised so that projects that would likely be profitable without benefits, such as those in New York City's central business district and businesses that cannot easily relocate, such as big-box stores and self-storage facilities, are excluded.[8] Likewise, State economic development spending should not go toward building facilities for private entities based on promises of jobs—the risk to taxpayers is too great.

Second, economic development benefits should have defined eligibility criteria. As-of-right tax credits, granted to firms that meet predetermined requirements set in statute, are preferable to discretionary grants with ad hoc terms. The Consolidated Funding Application (CFA), which already encompasses several state grant programs, should be expanded to all programs. The funding awarded to CFA applicants should be determined by the scores that the granting agency gives to their applications. Funding should be provided to the highest-scoring projects across the state, rather than providing funding to "winning" regions and then having that funding distributed within those regions. The impact of regional competition is that less qualified projects in winning regions get more funding than more qualified projects in regions that receive a smaller total award.

Third, the effectiveness of all economic development benefits should be regularly reviewed. Tax benefits, which are often not scrutinized as closely as spending, should include automatic sunset provisions that force them to be re-examined at regular intervals by independent entities. Using standardized metrics the costs and benefits of all programs should be evaluated and compared so that funding is directed effectively.

5. Make Administrative Reforms

Following the bid-rigging scandal involving several upstate economic development projects last fall, it is clear stronger protections on the procurement process are necessary. [9] All state agencies, public authorities, and affiliates should be required to have competitive and transparent contracting processes.

Furthermore, economic development projects should not be managed by the State University of New York or nonprofits. All State economic development activities should be managed and coordinated by ESD. OSC should have authority to review and approve all contracts over $250,000 entered by any of these entities. Finally, state authorities, state corporations, and state nonprofits should not be allowed to do business with members of their boards.[10]

Conclusion

These five reforms will go a long way toward making economic development in New York State more transparent, accountable, and effective.

APPENDIX A: RECOMMENDED METRICS FOR ALL ECONOMIC DEVELOPMENT PROGRAMS

- General information
  - Project identification number
  - Applicant name
  - Site address and region
  - Type of business and North American Industry Classification System (NAICS) industry code
  - Incentive type and program
  - Year incentive was awarded or began
- Incentives issued, with annual breakouts (as applicable)
  - Grant awarded, amount paid
  - Loan awarded, loan issued, loan balance outstanding
  - Tax credits awarded, tax credits issued
  - Estimated value of any other benefits, e.g. discounted power, rent, etc.
- Jobs when incentive was awarded
  - Full-time equivalent jobs
  - Temporary jobs (including construction)
- Job retention commitments (if applicable)
  - Full-time equivalent jobs
  - Temporary jobs (including construction)
- Job creation commitments (if applicable)
  - Full-time equivalent jobs
  - Temporary jobs (including construction)
- Actual jobs, reported annually after incentive begins
  - Full-time equivalent jobs
  - Temporary jobs (including construction)
- Capital investment commitments (if applicable)
  - Total capital investments
  - Annual capital investments
- Actual qualified investments (if applicable)
  - Total qualified investments
  - Annual qualified investments

APPENDIX B: CITIZENS BUDGET COMMISSION PUBLICATIONS ON ECONOMIC DEVELOPMENT REFORMS

- Citizens Budget Commission, "Testimony On Economic Development Proposals in the NYS Executive Budget for FY2018" (January 31, 2017), https://cbcny.org/advocacy/economic-development-proposals-nys-executive-budget-fy2018.
- Riley Edwards and Maria Doulis, "Should New York's REDCs REDO Their Plans?" Citizens Budget Commission Blog (December 6, 2016), https://cbcny.org/research/should-new-yorks-redcs-redo-their-plans.
- Dick Dadey and others, Letter from Good Government Groups on Economic Development Contracts (October 26, 2016), https://cbcny.org/advocacy/letter-good-government-groups-economic-development-contracts.
- David Friedfel, "Commentary: Economics of State's Initiatives," Albany Times Union (October 23, 2016), https://cbcny.org/advocacy/economics-states-initiatives.
- Dick Dadey and others, Watchdog Groups Call for Fundamental Reforms: Change Needed in the Aftermath of Massive State Bid Rigging Scandal (September 29, 2016), https://cbcny.org/advocacy/watchdog-groups-call-fundamental-reforms.
- Riley Edwards and David Friedfel, *Increasing Without Evidence: NYS Economic Development Spending Update* (September 26, 2016), https://cbcny.org/research/increasing-without-evidence.
- Citizens Budget Commission, "Testimony on Economic Development Programs, Delivered to the NYS Assembly Committee on Economic Development" (August 3, 2016), https://cbcny.org/advocacy/testimony-economic-development-programs.
- Rahul Jain and Riley Edwards, *An Assessment of Performance Reporting by Regional Economic Development Councils* (November 29, 2015), https://cbcny.org/research/assessment-performance-reporting-regional-economic-development-councils.
- Rahul Jain and David Copeland, "Learning from Past Mistakes: Examining Changes to the Excelsior Jobs Program," *Citizens Budget Commission Blog* (October 20, 2015), https://cbcny.org/research/learning-past-mistakes.
- Citizens Budget Commission, "CBC Urges Governor Cuomo to Improve Practices of Industrial Development Agencies" (July 13, 2015), https://cbcny.org/advocacy/cbc-urges-governor-cuomo-improve-practices-industrial-development-agencies.
- Tammy Gamerman, "Economic Development Bigger in State Budget, But Benefits Unclear," *Citizens Budget Commission Blog* (April 15, 2015), https://cbcny.org/research/economic-development-bigger-

state-budget-benefits-unclear.

- Carol Kellermann, "What's the Return on Investment for New York's Economic Development Efforts?" The Post-Standard (March 23, 2015), https://cbcny.org/sites/default/files/OPED_03232015.pdf.

- Tammy Gamerman and David Copeland, "New York's $1 Billion Brownfield Cleanup Program," Citizens Budget Commission Blog (March 17, 2015), https://cbcny.org/research/new-yorks-1-billion-brownfield-cleanup-program.

- Jamison Dague, Tammy Gamerman, and Elizabeth Lynam, *Bigger Not Better: New York's Expanding Economic Development Programs* (February 18, 2015), https://cbcny.org/research/bigger-not-better.

- Elizabeth Lynam and Tammy Gammerman, *Recommendations for the Next Round of Economic Development Council Awards* (October 10, 2012), https://cbcny.org/research/recommendations-next-round-economic-development-council-awards.

- Citizens Budget Commission, Testimony to the Joint Legislative Budget Hearing on Economic Development (January 31, 2012), https://cbcny.org/advocacy/testimony-joint-legislative-budget-hearing-economic-development.

- Elizabeth Lynam and Tammy Gammerman, *Avoiding Past Mistakes: Principles for Governing Regional Economic Development Councils* (September 12, 2011), https://cbcny.org/research/avoiding-past-mistakes.

- Elizabeth Lynam, Tammy Pels, and Kathryn Schwartz, *Overhauling the New York Power Authority's Economic Development Programs* (September 22, 2009), https://cbcny.org/research/overhauling-new-york-power-authoritys-economic-development-programs.

ENDNOTES

[1] Citizens Budget Commission, *Increasing Without Evidence: NYS Economic Development Spending Update* (September 26, 2016), https://cbcny.org/research/increasing-without-evidence.

[2] Several other states have established UEDBs or similar reports, but nearly all of these have had a retrospective focus and do not include estimates of future costs. A bill introduced in the State Senate, S3354, calls for a comprehensive tally of economic development costs, but would not include future costs.

[3] Empire State Development, "Excelsior Jobs Program – Quarterly Report: 12/31/2016" (accessed March 2, 2017), https://esd.ny.gov/esd-media-center/reports/excelsior-jobs-program-quarterly-report-12312016.

[4] Office of the New York State Comptroller, *Financial Data for Local Governments*, "Industrial Development Agencies 2014" (accessed March 2, 2017), www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm.

[5] New GASB standards in 2015 require Comprehensive Annual Financial Reports (CAFRs) to include a section reporting on forgone tax revenue, commitments made by recipients (such as job creation or investment), and recapture rules. This will aid in the process of measuring local governments' economic development costs.

[6] Illinois Department of Commerce and Economic Opportunity, "Illinois Corporate Accountability Progress Reports" (accessed February 28, 2017), www.ilcorpacct.com/corpacct/ProgressReport.aspx; Wisconsin Economic Development Corporation, "Annual Report on Economic Development: Searchable Data" (accessed February 28, 2017), http://inwisconsin.com/inside-wedc/core-strategies/operational-and-fiscal-excellence/annual-report; and Maryland Department of Commerce, "Maryland Finance Tracker" (accessed February 28, 2017), http://commerce.maryland.gov/fund/maryland-finance-tracker.

[7] Recapture provisions, which require the repayment of benefits if targets are not met, are comparatively difficult to implement after recipients have failed, rather than just cutting off benefits when growth falls short.

[8] Nassau County's IDA has given tax benefits to at least seven self-storage facilities despite minimal job creation. See: James T. Madore, "Nassau IDA Gives Tax Breaks to Self-Storage Facility," *Newsday* (July 6, 2016), www.newsday.com/business/nassau-ida-gives-tax-breaks-to-self-storage-facility-1.12008027.

[90] See: Vivian Yee, "Ex-Advisers to Gov. Andrew M. Cuomo Are Indicted in Federal Bribery Case," *New York Times* (Nov. 22, 2016), www.nytimes.com/2016/11/22/nyregion/ex-advisers-to-gov-andrew-m-cuomo-are-indicted-in-federal-bribery-case.html.

[10] Dick Dadey and others, Letter to State Leaders from Watchdog Groups Calling for Fundamental Economic Development Reforms (September 29, 2016), https://cbcny.org/advocacy/watchdog-groups-call-fundamental-reforms.

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