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Testimony on the New York State Authorities Budget Office Oversight of Industrial Development Agencies

Submitted to the New York State Authorities Budget Office

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Hello, and thank you for the opportunity to submit testimony today. I am David Friedfel, Director of State Studies for the Citizens Budget Commission (CBC). CBC is a nonprofit, nonpartisan civic organization, dedicated to achieving constructive change in the finances and services of New York State and New York City government. We have written extensively on state and local economic development programs; this work is available online at www.cbcny.org.

The purpose of today's public hearing is to discuss regulations recently proposed by the Authorities Budget Office to impose additional disclosure requirements on local industrial development authorities (IDAs) that provide economic development incentives. These regulations enhance transparency by making important details about the selection process, benefits, and results of IDA projects available online.

First, IDAs would be required to post online a standard application form and all approved applications—information they are already required to maintain. This would reveal details such as:

- an itemized list of financial benefits requested;
- a statement that the project would not be undertaken if not for the benefits sought, or a statement of why the benefits should be provided even though the project would take place without financial incentives;
- an itemized estimate of capital expenses and financing methods;
- the projected number of full-time equivalent (FTE) jobs to be created or maintained, hiring timeframes, associated compensation ranges, and regional hiring estimates;
- a statement from the chief executive officer that the project will not shift workers from elsewhere in the state unless necessary to maintain competitiveness;
- a statement that the company is in substantial legal and regulatory compliance; and
- a statement from the chief executive officer that knowingly providing a false

statement could result in a revocation or reclamation of benefits.

Second, IDAs would be required to post the criteria used to determine benefits granted, including a cost-benefit analysis produced by the entity. Third, IDAs will be required to post completed agreements, including all attachments and schedules detailing the financial assistance received, the number of jobs retained and created, compensation ranges, a schedule of payment in lieu of taxes (PILOT), and mechanisms to modify or rescind benefits.

As of 2015 IDAs provided more than \$750 million in benefits, the vast majority of which were through tax reductions.ⁱ Given the level of benefits provided and a record of poor decisionmaking at some IDAs, it is imperative that additional reporting and evaluation be imposed on these entities. For example, certain IDAs have repeatedly awarded large tax breaks to self-storage facilities which employ very few people.ⁱⁱ Other IDAs have granted substantial benefits to businesses that underperform or never intended to create jobs. Transparent application and evaluation processes, combined with easily accessible project agreements and updated progress reports, will allow taxpayers to hold IDAs accountable.

While we applaud the adoption of additional reporting requirements for IDAs, there is additional room for action:

- Further consolidate economic development—there are more than 100 IDAs and close to 200 local development corporations (LDCs) across the state. Consolidation will yield lower administrative costs and a more coordinated regional approach;
- Strengthen ABO enforcement powers—ABO is not able to suspend an IDA's operations for noncompliance; the proposed regulations still do not grant such authority;
- Expand ABO resources to allow for more thorough analysis of IDA and LDC inputs into the Public Authority Reporting Information System (PARIS);
- Authorize the State Comptroller to audit LDCs;
- Expand the proposed reporting requirements to LDCs; and
- Perhaps most importantly, expand reporting requirements to State entities engaged in economic development.

I recognize that most of these recommendations will require additional statutory authority. However, given that state and local governments allocate more than \$8 billion per year toward economic development, the time has come for systematic, thorough reporting.ⁱⁱⁱ The funding allocated toward these projects—whether through direct spending or preferential tax treatment—are public funds, and the public has a right to know how the money is spent.

Thank you again; I am happy to answer any questions you have.

Technical Note: The regulations should say that IDAs would 'update once annually' information on ongoing projects, not 'once annually make publicly available' in subsection (f).

ⁱ Riley Edwards, *Opaque and Duplicative: Local Economic Development in New York State* (Citizens Budget Commission, October 2017), <https://cbcny.org/research/opaque-and-duplicative>.

ⁱⁱ James T. Madore, "Nassau IDA Gives Tax Breaks to Self-Storage Facility," *Newsday* (July 6, 2016), <https://www.newsday.com/business/nassau-ida-gives-tax-breaks-to-self-storage-facility-1.12008027>

ⁱⁱⁱ Riley Edwards and David Friedfel, *Increasing Without Evidence: NYS Economic Development Spending Update* (Citizens Budget Commission, September 2016), <https://cbcny.org/research/increasing-without-evidence>.