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Testimony to the New York State Assembly Standing Committee on Economic Development, Job Creation, Commerce and Industry, and the Standing Committee on Small Business

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

The focus of today's hearing is on economic development programs that leverage state funds to translate technological advancements into viable long-term business development and economic growth. The announcement for today's hearing specified interest in testimony about Technology Development Organizations (\$2 million annual appropriation), Manufacturing Extension Partnership (\$10 million), Centers of Excellence (\$11 million), Centers for Advanced Technology (\$14 million), and Innovation Hot Spots/ Certified Incubators (\$5 million). While the effectiveness of these programs is important, they are relatively small in comparison to the total amount of state economic development spending. Instead, I will focus on recommendations for five basic reforms to the State's economic development spending practices that would impact the above referenced programs as well as all of the others in which the state invests a total of \$4 billion each year.

1. Establish a unified economic development budget (UEDB);
2. Use standardized metrics across economic development initiatives;
3. Establish a database of deals to shine light on recipients of incentives;
4. Improve program design; and
5. Make administrative reforms.

Unified Economic Development Budget

Economic development spending spans multiple departments, with considerable sums 'spent' via tax expenditures. Therefore, the State Budget should include a specific section which lists and quantifies all state economic development spending including all tax expenditures and the value of subsidies granted via the State's public authorities, including power discounts offered by the New York Power Authority, free rental space offered by SUNY and its affiliates, and more. A comprehensive accounting would

allow lawmakers and the public to better understand the magnitude of economic development spending and to prioritize programs based on costs and results.

Standardize Metrics Across Economic Development Initiatives

It is important that metrics are comparable across different programs. Otherwise, there is no way to accurately evaluate which programs are actually successful and worthy of investment. For instance, the state's film tax credit counts 'headcount', and not full-time equivalents, whereas the majority of other large economic development programs count jobs based on full-time equivalents. Definitions should be standardized across all programs regarding job creation, retention, capital investments, and state incentives. Project-specific appropriations should also rely on these established metrics and definitions.

Establish a Database of Deals

The State should establish a 'Database of Deals' to bring together all state funds that are disbursed or committed for economic development, along with appropriate measures of results. Like the UEDB, this database should include all direct expenditures, tax expenditures, subsidies, and discounts. It should also include appropriations specifically aimed to subsidize a particular company. The Assembly and Senate both included language to create such a database in their one-house budgets last session and had standalone bills (S6613A-Croci and A8175-Schimminger) that did not reach the floor for a vote. While there were differences between the houses, we are hopeful that those differences can be overcome and a bill adopted.

Improve Program Design

There are three specific ways to improve economic development program designs. First, project-specific economic development subsidies should only be provided after a private entity has made an investment. Specifically, the state should not build facilities for a private enterprise based on the promise of future job creation—there is too much risk for taxpayers. Second, economic development programs should have clear eligibility and programmatic parameters. The fiscal year 2017-2018 budget contained almost \$1.4 billion for programs that lack clear parameters. Finally, economic development programs, including tax expenditures, should be subject to thorough and regular evaluations based on standardized metrics.

Make Administrative Reforms

All State economic development activities should be managed and coordinated by Empire State Development and be subject to the same procurement guidelines as state agencies. The Office of the

State Comptroller should have authority to review and approve all contracts more than \$250,000. Finally, state authorities, state corporations, and state nonprofits should not be allowed to do business with members of their boards.

Thank you again for the opportunity to submit this testimony.

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.