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Testimony on Industrial Development Agencies (IDAs) and Local Development Corporations (LDCs)

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Good morning Committee Chairs Thiele, Paulin, and Abinanti. Thank you for the opportunity to testify today. I am David Friedfel, Director of State Studies for the Citizens Budget Commission (CBC). CBC is a nonprofit, nonpartisan think tank dedicated to achieving constructive change in the finances and services of New York City and New York State government.

Due to the large sums allocated to economic development in New York— $10 billion by state and local governments in 2018 according to our most recent analysis— CBC has long advocated for increasing accountability and improving the performance of all entities engaged in economic development spending, including Industrial Development Authorities (IDAs) and Local Development Corporations (LDCs). Attached to my testimony is a copy of our report *Opaque and Duplicative: Local Economic Development in New York State*, which analyzes the role of IDAs and LDCs in economic development and makes recommendations for reform. That report expands on many of the points I will make today.

Local governments, especially in certain economically depressed parts of the state, understandably want to invest in economic development; however, granting power to allocate taxpayer funds to more than 100 IDAs and almost 300 LDCs with imperfect reporting and minimal accountability has not been successful in improving suffering regional economies.

It is important to recognize the scale of benefits allocated by IDAs and LDCs and their records of success. In the desire to further economic development, local governments have ceded their authority to unelected IDAs and LDCs to grant tax benefits, provide direct grants, and issue conduit debt on the localities' behalf. LDCs and IDAs ended 2017 with a combined $29 billion in debt outstanding - $20 billion in conduit debt and $9 billion in other debt. [1] In 2017 alone IDAs provided more than $700 million in tax benefits; New York City LDCs spent $1.1 billion on economic development, and LDCs outside of the City spent another $73 million.[2]

Despite the high levels of spending and debt, results have been lackluster. In 2015 projects outside New York City reporting both job creation and retention received IDA benefits of almost $25,000 per job; projects reporting just retention averaged almost $24,000 per job.[3] LDCs provided more than $12,000 in grants per new job. LDCs also provided another $50 million to projects that were not anticipated to create or retain any jobs. Furthermore, the Authorities Budget Office (ABO) reported that only half of the $982 million in conduit debt that was issued by LDCs in 2017 for new construction and renovation projects would result in new job creation.[4] In 2017– the most recent year for which data are available— LDCs provided $272 million in grants to economic development projects that planned zero new jobs.[5] Also, exemplifying the lack of a strategic focus, current policies do not prohibit the same project from getting benefits from both an LDC and an IDA.

Given this backdrop, CBC recommends the State:

- Consolidate local IDAs into regional IDAs and prohibit LDCs from engaging in economic development activities;
- Improve reporting requirements;
- Improve accountability by allowing the State Comptroller to audit LDCs; and
- Increase resources for the Authorities Budget Office (ABO).

Consolidate IDAs at the Regional Level to Coordinate with REDCs and Prohibit LDCs from Engaging in Economic Development Activities

The State's ten regional economic development councils (REDCs) were established to provide a regional approach to economic development. However, as of 2015 there were 107 IDAs and 189 LDCs dedicated to economic development across the state's 62 counties.[6] Individual IDAs are created by state statute and are authorized to issue conduit debt on behalf of for-profit entities, but not nonprofits. IDAs are prohibited from issuing grants or providing loans. LDCs that are engaged in economic development are created by or on behalf of local governments – sometimes with mirror boards to coterminous IDAs – and serve the same general function but can issue conduit debt for nonprofits and provide grants and loans.

The REDCs, IDAs, and LDCs overlap and duplicate efforts, and they may offer conflicting or competing strategies. Although there are varying levels of informal cooperation between entities in the same geographic area, there is unnecessary duplication of efforts. IDAs and LDCs spent $100 million on staff wages, salaries, and benefits in 2015.

In addition, interregional competition between IDAs and LDCs can create a "lose-lose" situation, as businesses lured from one community to another are rewarded with tax incentives. A recent study found the proliferation of New York's IDAs increased the tax breaks awarded without significantly affecting where firms located.[7]

To enhance coordination of economic development, IDA and LDC activity should be consolidated under the auspices of a regional IDA, and LDCs for economic development should be phased out. LDCs created for other purposes, such as land banks or watershed management, should be evaluated separately.

Improve Reporting Requirements

IDAs and LDCs are subject to ABO's reporting requirements, which include reporting detailed information on projects receiving benefits, as well as filing audit, budget, investment, procurement, and annual reports. However, the data often are inconsistent, inaccurate, or delayed. LDCs report the number of jobs planned and jobs created; IDAs include the number of jobs before benefits were granted, as well as jobs retained, jobs created, and salary information. Reporting should be standardized to include each project's planned and actual capital investment.

Reports also are frequently tardy. As of June 2019 65 IDAs or LDCs had failed to submit required reports for the prior fiscal year. The ABO should be empowered to enforce these reporting requirements.

The only way to improve efficacy of economic development investments is with thorough and accurate reporting combined with thoughtful evaluation. While thorough and accurate reporting requires devoting resources, it would be a miniscule portion of the billions of dollars in incentives IDAs and LDCs provide every year.

Improve Accountability by Allowing the Office of the State Comptroller (OSC) to Audit LDCs

Currently OSC can only audit the work an LDC is performing under contract with or on behalf of a local government or IDA. This limits OSC's ability to ensure LDCs have appropriate internal controls to safeguard public funds. The Legislature has passed a bill (A7476/S5445) to authorize the Comptroller to audit any LDC that is created or controlled by a municipal corporation; Governor Cuomo should sign it when it comes to his desk.

Increase Resources for the Authorities Budget Office

The ABO's staffing of 12 employees and budget of $2 million are approximately 40 percent of what was envisioned.[8] The ABO should be staffed to conduct its full scope of work—properly reviewing reports filed by local IDAs and LDCs and overseeing public authorities, including the Metropolitan Transportation Authority and 47 other state authorities. Despite its undersized staff and budget, ABO still manages to provide quality analysis and reports, including a recent report on LDC conduit debt. The ABO is funded by a surcharge on those entities it oversees, so new staff resources would not directly affect the State's general fund.

In closing, a regional approach is the best way to revive a regional economy. Consolidating IDAs and LDCs into a regional IDA linked to a regional economic development council will improve coordination and efficiency. Improving reporting and accountability will increase effectiveness.

Thank you for the opportunity to comment. I will be happy to answer any questions.

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[1] Conduit debt is issued by a public authority on behalf of a third party, often a non-governmental entity, with that third party assuming the obligation to make the debt service payments and with no financial liability to the public authority. See:

Authorities Budget Office, *PARIS Handbook: A Reference Guide for PARIS Users* (Revised June 2019), p. 8, https://www.abo.ny.gov/paris/PARISHandbook2017.pdf; and New York State Comptroller, "Financial Data for Local Governments: Local Development Corporations 2017" (accessed November 12, 2019), https://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm.

[2] Spending figures include operating expenses. See: Riley Edwards, *$10 Billion Reasons to Rethink Economic Development in New York* (Citizens Budget Commission, February 11, 2019), https://cbcny.org/research/10-billion-reasons-rethink-economic-development-new-york.

[3] Riley Edwards, *Opaque and Duplicative: Local Economic Development in New York State* (Citizens Budget Commission (October 30, 2017), https://cbcny.org/research/opaque-and-duplicative.

[4] Authorities Budget Office, *Local Development Corporation Conduit Debt: Final Report* (September 16, 2019), https://www.abo.ny.gov/reports/compliancereviews/LDCConduitDebtFinalReport_2019.pdf.

[5] This includes all projects related to business expansion/startup, commercial property construction, education/training for business development, equipment and fixed asset acquisition, land acquisition, development, infrastructure costs, marketing, and business recruitment for projects that planned zero new jobs.

[6] Other IDAs or LDCs created for specific reasons (such as tobacco securitization or sale of a county nursing home) are excluded from these figures.

[7] Evan Mast, "Race to the bottom? Local tax break competition and business location" (draft, Stanford University, April 13, 2017), https://sites.google.com/site/evanemast/.

[8] Governor's Taskforce on the Implementation of the 2009 Public Authorities Reform Act, p.19, https://www.abo.ny.gov/aboTaskForce/ParaTaskForceFinalReport.pdf.