CITIZENS BUDGET COMMISSION

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TESTIMONY BEFORE THE
Senate Standing Committee on Energy and Telecommunications
Senate Standing Committee on Corporations, Authorities and Commissions
Senate Standing Committee on Commerce, Economic Development and Small Business
Assembly Standing Committee on Energy
Assembly Standing Committee on Corporations, Authorities, and Commissions
Assembly Standing Committee on Economic Development, Job Creation, Commerce, and Industry

GIVEN BY ELIZABETH LYNAM
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Good morning and thank you for the opportunity to testify. I am Elizabeth Lynam, Deputy Research Director at the Citizens Budget Commission. The Citizens Budget Commission is a nonpartisan, nonprofit civic organization that since 1932 has been devoted to influencing constructive change in the finances and services of New York State and New York City government.

I am here today to talk with you about our review of the economic development programs of the New York Power Authority (NYPA), which we released yesterday to coincide with the beginning your efforts. We called the study "Overhauling the New York Power Authority's Economic Development Programs" and it is available in full at www.cbcny.org.

Although I am about to walk you through a critique of NYPA's power programs and some strong recommendations for their elimination and redesign, I do want to preface my remarks by saying that the CBC recognizes the importance of New York's economic development programs, especially in these difficult times and in this region, which is experiencing significant challenges. This recognition drives us to conclude that scarce resources should be focused where they will achieve the greatest return on the investment for New Yorkers.

Despite the fact that there is limited public information on the true costs of these programs, the CBC was able to develop a cost model to calculate the value of these power subsidies. We estimate that NYPA is "spending" between $479 million and $640 million annually on nine economic development programs. The five hydro programs—Replacement Power, Expansion Power, Industrial Economic Development Power, and Preservation Power—offer very deep subsidies ranging from $5,836 to $7,883 per job. The total cost of these programs is estimated to range from $362 million to $489 million.

In contrast, the five purchased power programs—Power for Jobs, Economic Development Power, High Load Factor Power, Municipal Distribution Agency Power, and World Trade Center Recovery Power—offer less generous discounts with a per-job subsidy that ranges from $247 to $630 per job. Total costs for the purchased power programs are estimated to range from $117 million to $151 million.

These sizeable investments are not being maximized. Three problems detract from their impact.

1. **The programs do not support New York's energy goals –** Offering deep subsidies for energy conflicts with New York's goals of reducing overall energy costs and usage. Subsidies encourage consumption rather than conservation, a problem that is exacerbated by the fact that current allocations are made without regard to the environmental record of the participating firms. With ambitious goals in place for conservation and increased use of energy from renewable sources, New York needs programs that complement, not undermine, these goals.

2. **The programs are not connected to strategic economic development goals** – Power benefits are currently highly concentrated in a small number of firms that are receiving deep discounts. Our analysis showed that one-quarter of the power capacity available for NYPA's economic development programs goes to the top twenty firms. (See attached table.) Of these firms, 15 are large manufacturing concerns that are receiving power through more than one NYPA program. Since these discounts are large and concentrated, reducing power rates paid by beneficiary firms by as much as 80 percent, a very unlevel playing field is created for those that do not benefit. For example, in the Western New York economic region 92 percent of manufacturing concerns struggle to be competitive without power subsides. Under separate contract, the Alcoa allocation of 478 megawatts is the largest award with 900 associated jobs and newly negotiated capital improvements of $600 million over 30 years. In exchange the State promised an annual subsidy with an estimated worth of $157 million.

   These sizeable subsidies are not coordinated with the State's overall plan for economic development. An overall strategy to draw in new, or maintain existing, economic activity in the State is lacking, and there are no compelling and publicly disclosed cost-benefit and performance metrics to justify them.

3. **The Authority's disclosure of the nature and cost of the economic development programs it oversees is insufficient.** The magnitude of the discount power programs run by the Authority is not publicly disclosed. Information about the sizeable loss of revenue to the Authority, due to the subsidies, is scarce and scattered; they are essentially "off the books."

After analyzing the programs the CBC recommends that New York move away from subsidizing power. State leaders should overhaul the Authority's economic development programs by following four recommendations:

1. **Phase out current programs.** No new legislation should be passed to reauthorize the programs, and current contracts should be allowed to expire. Since the Alcoa contract was recently renewed and will not expire until 2043, the terms of that subsidy may warrant reexamination before the expiration date. Firms whose contracts are ending should have the ability to request a case-by-case review to determine if a more gradual phase-out should be applied to the withdrawal of current subsidies.

   As the old programs are phased out, they should be subject to greater disclosure requirements. The transparency and accountability measures recommended by the 2006 Commission should be implemented, as a first step toward better overall reporting on all economic development programs. The Commission recommended that program participants be listed on a state-administered website available to the public and containing the following information: 1) the value of the power received (compared to purchase through the businesses' local utility) or the value of the direct subsidy; 2) the economic benefits to the state from the business, consistent with the new selection criteria recommended by the Commission. The new criteria would include 1) payroll; 2) investment; 3) net economic impact to New York State; and 4) significance to the local/regional economy. In some cases beneficiaries are receiving per-job subsidies of $48,000, $80,000, and $164,000 per job. These are staggering amounts that should be disclosed while the contracts that govern their allocation are in force.

2. **Include assistance for firms with high energy costs as part of a comprehensive economic development strategy administered by Empire State Development.** The strategy should account for all the costs and benefits of a particular incentive package together. Guidelines for deciding which firms to assist should consider the types of jobs and sectors of the economy New York would benefit from most and could best attract, and whether high power costs are a location factor. High tech, clean tech, and other high-value-added industries likely would be a priority.

3. **Sell power no longer used for economic development at market rates.** Some of new revenue should be dedicated to economic development programs operated by Empire State Development, the State's principal economic development agency. This would ensure that the funds remain devoted to economic development goals and would—under a revitalized strategic plan and the proper performance metrics—enhance their likely effectiveness. An alternative option is to allow the Authority to retain the new earnings and invest the funds in energy infrastructure improvements that it otherwise could not afford. A modern, more efficient, energy grid would provide broad benefits in the form of a more reliable system to virtually all businesses and residents in the state.

4. **Link energy conservation and economic development goals and programs.** Firms that receive benefits specifically to alleviate the high cost of power should be required to submit to energy audits, and to comply with best practices for energy efficiency established by NYSERDA. New York Energy $mart, the program that NYSERDA finances and operates, could extend additional low-interest loans to private firms to make their facilities more energy-efficient. If requiring firms to secure financing proves problematic, the Authority's current financing options for customers seeking to make energy-efficiency upgrades could be expanded.

In closing, let me thank you again for the opportunity to testify before you today. I am, of course, happy to take questions.

NYPA Economic Development Programs
Allocations to the Top Twenty Beneficiaries, 2007*

Business	Location	KW Allocated	Jobs Committed	KW per Job	Program	Cost per Job**
Occidental Chemical Corporation	Niagara Falls	94,700	468	202.4	REP/EXP	$66,649
Olin Corporations Chlor-Alkali Products	Niagara Falls	79,450	160	496.6	REP	$163,556
Praxair Inc.[1]	Niagara Falls/Tonawanda	52,800	2,322	22.7	REP/EXP	$7,490
E. I. du Pont de nemours & Co., Inc.	Niagara Falls/Buffalo	39,765	1,530	26.0	REP/EXP	$8,561
International Steel Group (ISG)	Lackawanna	35,400	700	50.6	REP/EXP	$16,657
General Motors Corporation	Buffalo/Massena	31,425	6,652	4.7	EXP/EDP/REP	$1,556
BOC Gases - Div. of BOC Group[2]	Buffalo	29,500	121	243.8	EXP/High Load	$80,302
J.P. Morgan/Chase	Brooklyn/Lake Success/Uniondale	25,995	4,182	6.2	EDP/PFJ	$2,047
Delphi Automotive Systems[3]	Lockport/Amherst	25,950	5,596	4.6	EXP/REP/PFJ	$1,527
Endicott Interconnect Technologies	Endicott	23,500	8,414	2.8	EDP/PFJ	$920
Citigroup, Inc.[4]	New York/Amherst	22,400	5,500	4.1	PFJ/High Load/REP	$1,341
International Business Machines[5]	Yorktown Heights/Rochester /Poughkeepsie/White Plains	20,720	5,812	3.6	EDP/PFJ	$1,174
Visy Paper	Staten Island	20,500	140	146.4	MUN NYC	$48,230
Encore Paper dba SCA Tissue	South Glen Falls	20,000	543	36.8	High Load	$12,132
Reynolds Metal Company	Massena	17,000	459	37.0	High Load	$12,199
OAB Holdings, Inc.	Buffalo	16,560	1,252	13.2	REP/PFJ	$4,357
American Axle & Manufacturing[6]	Tonawanda/Buffalo/Cheektowaga	14,250	4,935	2.9	REP/EXP	$951
Norampac Industries, Inc.[7]	Lancaster/Niagara Falls	13,800	390	35.4	PFJ/EXP/High Load	$11,655
Ford Motor Company	Buffalo	13,700	3,234	4.2	EXP/PFJ	$1,395
Air Products and Chemicals, Inc.[8]	Glenmont	13,000	0	No jobs	High Load	No jobs
Total		**610,415**	**52,410**	**11.6**		**$3,836**

Source: New York Power Authority, *2007 Report to the Governor and Legislative Leaders on Power Programs for Economic Development*, April 2008.

Note: Total KW allocated, to all 757 businesses, was 1,806,820; total jobs committed were 411,214

*This includes Power for Jobs, Economic Development Power, Replacement Power, Expansion Power, High Load Factor Power, and Municipal Development Agency Power.

**CBC Analysis. For methodology, see CBC, *Overhauling the New York Power Authority's Economic Development Programs*, September 2009.

1 Received four separate allocations: one of each replacement and expansion power at each location

2 Received three separate allocations: one under expansion power and two under high load

3 Received four separate allocations: expansion power in Lockport and Amherst and both replacemnt power and power for jobs in Amherst

4 Received three separate allocations: power for jobs and high load in New York and replacement power in Amherst

5 Received four separate allocations: economic development power in Yorktown Heights and power for jobs in Rochester, Poughkeepsie, and White Plains

6 Received five separate allocations: expansion power in all three cities and replacement power in Tonawanda and Buffalo

7 Received three separate allocations: power for jobs in Lancaster and both expansion power and high load in Niagara Falls

8 Received two separate high load factor allocations