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Testimony at the Joint Legislative Public Hearing on 2013-2014 Executive Budget Proposal: Economic Development

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Good afternoon members of the Senate Finance and Assembly Ways and Means Committees. Thank you for allowing me the opportunity to comment on the Governor's proposed 2013-2014 Executive Budget as it relates to economic development. My name is Matt Ryan and I am the Executive Director of ALIGN, an alliance-building organization that brings together labor and community-based organizations in order to create good jobs, vibrant communities, and an accountable democracy for all New Yorkers. For the last several years, ALIGN has co-anchored the statewide Getting Our Money's Worth coalition, a broad-based coalition that advocates for comprehensive reform of our economic development system to ensure good jobs, strong communities, and sustainable economic growth.¹

The Citizens Budget Commission released a report late last year that identified nearly \$7 billion dollars in spending on economic development in New York.² This is money spent on private economic development and does not include the \$16 billion spent annually on public infrastructure projects. Over the last few months, ALIGN has taken a closer look at this \$7 billion by pouring over mountains of data obtained through FOIL requests and publicly available data, to develop a full picture of this state and local spending. While the detailed finding will be released in the next few months, our initial findings suggest that there is little to no coordination, few job creation requirements, and few standards to encourage quality jobs and a low-carbon economy, and only pockets of transparency and accountability in the fifteen largest economic development programs and entities. This is a system that needs to be overhauled, and now is the time.

As you know, over three million New Yorkers live under the federal poverty line. Nearly one million New Yorkers are unemployed.³ Given the sheer size of the unemployment and jobless crisis in New York, economic development entities should be directing all of their resources towards quality job creation. What New Yorkers need are jobs that pay them enough to support their families, and we have the resources to do this if only they are directed towards strategic economic development.

Regional Economic Development Councils, which were created by Governor Cuomo in 2011, have taken an important step towards improving the cooperation and strategic orientation of certain pieces of our economic development system. Yet it is important to note that they only control around \$750 million, or 10% of New York's total spending on private economic development.

¹ Visit ALIGN at www.alignny.org to learn more. See also the Getting Our Money' Worth Coalition's Subsidy Hall of Shame, at www.gettingourmoneysworth.org

² Citizens Budget Commission, Recommendations for the Next Round of Economic Development Council Awards, October 2012, at http://www.cbcny.org/sites/default/files/REPORT_EconDev_10112012.pdf

³ Federal Poverty Level: \$11,484 per year for an individual and \$17,916 for three-person households. See Fiscal Policy Institute, State of Working New York, 2011 and 2012

Governor Cuomo has taken another step in the right direction in this budget cycle, by proposing Article VII legislation that would limit the ability of Industrial Development Agencies (IDAs) to unilaterally grant state tax exemptions. The current proposal brings IDAs into conversation with Regional Councils, and puts additional scrutiny on state exemptions, ensuring subsidy deals conform to the criteria set by the relevant Regional Council. While this could increase coordination and investment in strategic sectors of the economy, it represents only a small portion of IDAs' overall spending. State sales tax breaks only account for 12% of all net tax exemptions granted by IDAs. Local governments lost out on the vast majority of tax revenues – \$426 million in 2010, including \$200 million lost to local school boards. While state tax breaks will come under greater scrutiny if these changes are approved, local governments will be left to find solutions to run-away IDAs on their own. In the Governor's Budget Briefing book, it is noted that the proposed IDA reform would generate \$7 million in additional revenue as IDAs recapture funds from projects that fail to meet their contractual obligations. Yet it is clear that New York has a \$7 billion problem, not a \$7 million problem.

If IDAs and Regional Councils only account for 17% of spending on economic development in New York, what accounts for the other 83%? How can New York take the reins of our economic development system and strategically invest our scarce public dollars to create quality jobs, build a stronger economy, and improve the quality of life for all New Yorkers?

We need legislators to make bold proposals for strategically marshaling this \$7 billion. The key principles of a bold plan are:

1. **Prioritize performance: Require community benefits to be given in return for our investment of scarce public dollars.** Over one-third of all current IDA projects do not require the creation of a single job, and nearly one-half of all IDA projects failed to create a job or lost jobs in the last reporting year.⁴ Only the Excelsior Jobs Program, the REAP program in New York City, and Empire State Development Grants require job creation. For the other 12 programs that make up the \$7 billion, they simply do not require job creation or retention.
2. **Show us the jobs: Make it easy to track and account for how we spend the \$7 billion.** IDAs have the most comprehensive project-specific data available, despite several serious short- falls. Of the several dozen programs run by Empire State Development, Regional Councils and the Excelsior Jobs Program are the only programs that have project-specific reporting, although it is far from comprehensive. Several programs, such as ICAP (NYC programs enabled at the state level), and the state R&D Tax Credits, have no project-specific transparency, and our FOIL requests have been denied.
3. **Money-back guarantee: If a business doesn't meet its performance benchmarks, get the money back to create jobs elsewhere.** ESD is the most successful at monitoring projects and holding recipients accountable to their agreements. Only half of IDAs have a subsidy recapture policy, and few apply it systematically. Too few programs have clear performance benchmarks and accountability mechanisms to protect New York's taxpayers.

It is time to move away from piecemeal solutions to New York's economic development failures. We need bigger and bolder change that prioritizes performance, accountability and transparency throughout this \$7 billion system. New Yorkers deserve to get their money's worth from their \$7 billion investment. To this end, ALIGN and the Getting Our Money's Worth Coalition looks forward to working with legislators on bold, new ideas to reform New York's economic development system.

Thank you,
Matt Ryan

⁴ Office of the New York State Comptroller, Industrial Development Agencies, Summary of Data, 2010

Appendix I

Citizens Budget Commission: New York's Economic Development Costs

Table 1: Summary of Annual New York State and Local Government Economic Development Costs
(Dollars in Millions)

State Tax Breaks	2010	2012	Annual Growth
Excelsior	0	100	NAP
Brownfields Tax Credits	624	500	-10%
Sales Tax Benefits for Production and R&D	602	654	4%
Empire Zone Credits	554	400	-15%
Exemptions For Commercial Airline Carriers	155	186	10%
Empire State Film & Commercial Production	130	359	66%
Investment Tax Credits	96	144	22%
Other	297	278	-3%
Subtotal State Tax Breaks	\$2,458	\$2,621	3%
State Spending	2010	2012	Annual Growth
Empire State Development	982	1,093	5%
NYSERDA Econ Development Programs	144	84	-24%
State Agency Spending	123	126	1%
Other State Capital	27	21	-11%
Other Public Authorities*	67	30	-56%
New York Power Authority**	479	479	NAP
Subtotal State Spending	\$1,822	\$1,833	NAP
Local Tax Breaks	2009	2012	Annual Growth
New York City Tax Breaks	511	698	11%
Industrial Development Agency Tax Breaks***	496	483	-3%
Subtotal Local Tax Breaks	\$1,007	\$1,181	NAP
Local Spending	2009	2011	Annual Growth
New York City Economic Development Corporation	771	781	1%
Other Local Government Spending***	496	517	4%
Subtotal Local Spending	\$1,266	\$1,298	NAP
TOTAL	\$6,553	\$6,933	NAP

* Data from 2010 to 2011
 ** Data from 2007
 *** Data from 2009 to 2010
 Sources: See endnotes.

Key Facts About IDAs

New York State's 114 Industrial Development Agencies (IDAs) provide aid to private businesses to locate or expand in the state. In exchange for tax exemptions and tax-exempt bond financing, companies often agree to create or retain a certain number of jobs. Too often, however, these businesses fail to meet their commitments, or create low-wage work that doesn't promote real economic growth. Performance standards, accountability measures, and transparency reforms are needed to ensure that IDAs do not waste public dollars.

\$182 million in IDA tax breaks went to companies that cut jobs, failed to create any new jobs, or didn't promise to create any jobs

- IDAs continue an annual trend of **increasingly ineffective spending**.
 - ⇒ **38%** of net spending resulted in no job promise, no job creation or a loss of jobs in 2010, up from 25% in 2009.
 - ⇒ **48%** of IDA projects lost jobs or failed to create jobs in 2010, up from 38% in 2009.
- With the amount of money wasted on these projects we could have:
 - ⇒ Retrofit nearly 33,000 homes in NY, creating nearly 3,000 jobs in the hard hit construction industry and saving NY residents over \$33 million in energy costs.⁵

A legacy of failure: Over one-half of all projects that ended in 2010 failed to create a single job

- 175 subsidy agreements that ended in 2010 lost jobs. These businesses originally agreed to create a total of 7,865 jobs. Instead, they **lost 7,896 jobs**.
- Of the 31,325 jobs agreed to be retained by projects ending in 2010, **only 118 net jobs were retained**.

IDAs continue to maintain high spending while state and local budgets are slashed

- IDAs have maintained high spending on net tax exemptions, spending **\$483 million** in 2010. Since reporting began in 2003, IDAs have spent a total of nearly **\$4 billion** in net tax exemptions.⁶
 - ⇒ If NY had instead spent \$4 billion on direct job creation efforts rebuilding our state's crumbling infrastructure, we would have created nearly 150,000 jobs and increased the attractiveness of our state to many more businesses seeking to relocate or remain here.⁷

Local governments are increasingly picking up the tab for corporate tax exemptions

- In 2003, 77% of exemptions came from local rather than state coffers. In 2009, local governments' share of exemptions rose to 85%. In 2010, it increased to 88%. **In several counties, over 25% of taxable property is exempt from local taxes due to IDAs**. As a result, local residents must choose between increased property taxes or service cuts.⁸
- **Local governments lost \$426 million** in tax revenue in 2010, including \$200 million lost to local school boards.
 - ⇒ Since 2003, school districts have lost \$1.4 billion that could have been used to educate nearly 80,000 children.⁹
- **Since 2003, there has been an 84% increase in tax revenue lost to local governments**, from \$231 million to \$426 million in 2010.
 - ⇒ Overall, for every \$1 given in net IDA tax exemptions in 2010, schools lose 41 cents.

⁵ Author's calculation, based on Center for Working Families, Green Jobs/Green Homes NY, available at <http://www.workingfamiliesparty.org/wordpress/uploads/2009/04/green-jobs-green-homes-ny-summary.pdf>

⁶ All IDA data based on F.Y. 2009 data collected by the NY State Comptroller. For more information, please contact Josh Kellermann at 212.701.9483

⁷ Author's calculation, derived from Phillip Harvey, *Back to Work: A Public Jobs Proposal for Economic Recovery*, Demos, March 2011

⁸ New York Office of the State Comptroller, Annual Performance Report on New York State's Industrial Development Agencies, 2011.

⁹ New York's average cost per pupil in 2010 is \$18,126, according to 2011 US Census Bureau, available at <http://www.census.gov/newsroom/releases/archives/governments/cb11-94.html>