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

Assembly Standing Committees on Local Governments, Corporations, and Oversight, Analysis and Investigation

November 22, 2019

Good morning Chairs Paulin, Thiele, Abinanti, and members of the committees. My name is Alex Camarda, and I am the Senior Policy Advisor for Reinvent Albany. We are a nonprofit watchdog group that advocates for open and accountable New York State government. Thank you for holding this important hearing, and providing the opportunity to testify today.

We believe New York State would be better off if local governments did not provide taxpayer funded subsidies to businesses. In our view, Industrial Development Agencies (IDAs) and local development corporations (LDCs) that provide subsidies are collectively a corruption risk, opaque, fundamentally undemocratic, and largely waste about $2 billion in taxpayer funds that could be better spent on schools, roads, transit and clean water.[1]

Authorities have many problems, and much more oversight is needed. Authorities in New York State too often recklessly spend money subsidizing economic development projects without measuring whether the programs are cost effective. There are also too many instances of authorities failing to be transparent, govern effectively, or create jobs.

Recent studies by independent researchers in government, academia and policy think tanks have found that government subsidies are extremely ineffective at creating jobs and steering economic growth. Studies estimate that at most 25% of companies and perhaps as few as 2% base their business decisions on government subsidies. In other words, New York's IDAs and LDCs are wasting between 75% and 98% of the taxpayer subsidies they are providing to businesses.[2] Additionally, IDA's and LDCs are typically

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[1] Citizens Budget Commission. Opaque and Duplicative: Local Economic Development in New York State. October 30, 2017. Available at: https://cbcny.org/research/opaque-and-duplicative

[2] Bartik, Timothy J. *"But For" Percentages for Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?* W.E. Upjohn Institute for

the vehicles for some of the most discredited and wasteful forms of economic development especially convention centers, stadiums and arenas and data centers.

Summary of Recommendations

We recognize the legislature will not likely eliminate business subsidies altogether, but there are specific, politically achievable reforms you can do to make local IDAs more accountable, effective and transparent:

1. Reduce the number of IDAs to one per county, and one in NYC, and transfer all authority to offer government subsidies to IDAs.
2. Spend dramatically less on business subsidies in the next state budget.
3. Measure whether business subsidies are effective through a Database of Deals revealing the cost per job and other information for each locally-funded project. New York City law provides a model for project-based reporting by localities.
4. Increase the budget and staffing of the Authorities Budget Office (ABO).
5. Reform the state tourism tax benefit.

Dissolve Many Authorities and Transfer Their Responsibilities to State and Local Agencies

Reinvent Albany calls on the Assembly to eliminate most of the state's 109 IDAs and 279 LDCs. No county needs to have more than one IDA. The unique powers of LDCs, like issuing grants, loans or conduit debt, should be transferred to IDAs, and LDCs giving out business subsidies should be disbanded. We generally believe government work should be done by government agencies, not opaque and unaccountable authorities and affiliated nonprofits.

Public authorities have proliferated over the last 100 years in New York State and become a massive and unaccountable shadow government. It is not even entirely clear how many public authorities exist. Comptroller Tom DiNapoli believes there are over 1,000 authorities, while the ABO puts the number at 578. 388 of these public authorities are IDAs and LDCs. Even worse, these authorities have spawned a shadow of a shadow government by creating even less accountable and transparent subsidiaries. The New York State Economic Development Corporation, for instance, has 169 subsidiaries. The Dormitory Authority of New York State (DASNY) created the DCC (Design and Construction Corporation) to monitor large projects, thereby establishing a corporation within a corporation. These authorities collectively spend $66 billion annually, have

Employment Research, July 1, 2018. Available at: https://research.upjohn.org/cgi/viewcontent.cgi?article=1307&context=up_workingpapers

150,000 employees, and have incurred $270 billion in debt, or about $14,000 for every New York resident.

Authorities in New York State were first created to circumvent constitutional and budgetary limits on debt and insulate elected officials from blowback to rate hikes for public services. 96 percent of state debt is issued through authorities to circumvent public votes on debt and the constitutional debt cap tied to the state's personal income.

It is long past time that New York dissolve public authorities, government-affiliated nonprofits and their subsidiaries. We must put government work back where it belongs: in a government agency. If the state wants to incur debt, the legislature can change the constitution's restrictions on issuing debt.

Dramatically Reduce Economic Development Spending

Reinvent Albany believes that New York State must dramatically reduce the $10 billion it spends annually on business subsidies and economic development projects, much of it by authorities. Tax expenditures must be reduced dramatically, as business subsidies have not been proven to create or retain jobs.

Research by academic experts seriously question the benefit of tax expenditures on economic development. A review of 30 different studies by Timothy J. Bartik at the W.E. Upjohn Institute concludes that at least 75 percent of companies, and perhaps as high as 98 percent, would have made the same business decisions without the incentive. In a report written for the 2013 New York State Tax Reform and Fairness Commission entitled *New York State Business Tax Credits: Analysis and Evaluation*, the authors concluded, "There is, however, no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives. In addition, business tax incentives violate principles of good tax policy and tenets of good budgeting."[3]

Many authorities, including most IDAs and LDCs, promote economic development or give out business subsidies. ABO's 2017 annual report shows that the state's economic development initiatives, as carried out by the authorities, do not directly lead to job

[3] Marilyn M. Rubin and Donald J. Boyd. New York State Business Tax Credits: Analysis and Evaluation: A Report Prepared for the New York State Tax Reform and Fairness Commission, November 2013, p. 1. Available at: http://origin-states.politico.com.s3-website-us-east-1.amazonaws.com/files/131115__Incentive_Study_Final_0.pdf

growth in the private sector. There is no causation, and not even correlation, between economic development and overall job growth. Monroe, Nassau and Suffolk counties approved the most economic development projects in 2017, yet counties with few approved projects (Columbia, Putnam and Ulster) had higher private sector job growth (7.9 to 5.6 percent) between 2012 and 2016.

New York State spends billions on grants, loans and operating assistance for economic development projects, yet does not measure the impact of the spending. We have no idea which incentives are effective or ineffective, or how they compare to each other. Which is more effective — grants or low-interest loans? We don't know. Reforms like a Database of Deals would show how many jobs are created for each project for every public dollar invested, and measure which subsidies create the most jobs for the least expense.

Because we do not measure which subsidies produce or retain jobs with the least cost to taxpayers, costs per job vary greatly by project and authority. According to the ABO's 2018 annual report, 109 IDAs approved 1,704 projects between 2013 and 2017. Of the 351 approved 2013 projects still active in 2017, IDAs gave out $274 million in benefits, creating 21,769 jobs at an average cost of $12,589 per job. Project costs per job ranged wildly between IDAs. According to ABO's report, the Islip IDA gave out $8.6 million to 11 projects, which thus far have not produced a single job. Erie County handed out $22 million to 16 projects for 315 jobs, or $70,394 a job. New York City's IDA, in contrast, subsidized 17 projects with $8.8 million and created 5,678 jobs, averaging $1,565 a job.

Other business subsidy programs are simply abused and waste of taxpayer dollars. For example, the Nassau County IDA has given a state tourism tax benefit to storage facilities, fitness centers and car dealerships. The state law allows for giving tax benefits to companies when 50 percent of customers are from outside the company's region. In this case, the "tourists" buying products and services in Nassau were from Queens. The legislature should tighten restrictions so that the state tourism tax benefit is not given to companies already in the state.

Dramatically Increase the ABO's Budget to Address Governance and Transparency Problems at Authorities

Reinvent Albany supports dramatically increasing the budget of the ABO so that it can effectively monitor and regulate the over 500 authorities in New York State. The ABO is charged with the Herculean task of overseeing hundreds of state and local authorities, including enormous state entities like the Metropolitan Transit Authority, New York State Thruway, New York Power Authority, and the Empire State Development

Corporation as well as myriad LDCs and IDAs in counties, cities and towns. But in its current form, the ABO cannot meaningfully fulfill its duties.

When the office was reestablished in 2010, the ABO was intended to have 30 positions including a counsel, policy analysts, communications and administrative positions, none of which have ever been filled. Currently, the office has only 11 full-time employees, 40 percent of the level envisioned when the office was reestablished in 2010. In comparison, the NYS Inspector General has a $7.2 million budget and the MTA Inspector General has a $16 million budget and has 73 employees.

The ABO clearly needs a dramatic increase in its budget. Funding for the ABO is provided by receipt of a portion of an assessment on authorities and so changes to its budget do not impact the General Fund.[4]

Reinvent Albany and watchdog and fiscal groups recommended modestly increasing the ABO's budget to $3.1 million in FY2018-19. This recommendation was the legislature's own recommendation, adjusted for inflation, when it last made major changes to the ABO in 2009. But the legislature and Governor did not follow our recommendation.

Governance and Transparency Problems at Authorities
The ABO needs more resources to address the many governance and transparency problems at authorities, which do not receive enough oversight or scrutiny.

ABO's 2017 annual report found 25 percent of authority board members did not even complete required remote training for legal, fiduciary, financial, and ethics responsibilities. Forty percent of authorities did not even respond when told they missed the training.

Consequently, boards too often have conflicts of interest policies that fall far short of best practices or are not even followed. For example, the ABO reports that major ethical lapses occurred at the St. Lawrence County IDA, including making below-interest loans without disclosing conflicts, approving business loans with different job targets than those established by the Board, and misappropriating Board funds. Reinvent Albany has identified that Marc Patricof, a board member of the NYC Economic Development Corporation (EDC) is also on the board of Hornblower, which won a contract with EDC for more than $500 million. Patricof also acquired a financial stake in Hornblower

[4] See Public Authorities Law, section 2975.

through a firm he works for, Crestview Partners, after he came on to the EDC Board in apparent violation of EDC's own ethics by-laws.

Authorities also frequently do not follow the reporting requirements of the Public Authorities Law. ABO had to promulgate a rule in September 2018 to ensure IDAs were following a 2015 law sponsored by Senator Kathleen Marchione and Assemblyman Magnarelli. The law and rule requires IDAs disclose application forms for subsidies, criteria for evaluating and awarding subsidies, completed project agreements, and policies for clawing back funds or suspending benefits if job creation and retention goals are not met.

The IDA for the City of Glen Cove in Nassau County, which spends a whopping $6 million just to fund its own operations, blatantly violated this law. The IDA gave $263 million in tax subsidies to RXR Realty for development of housing on a 56-acre waterfront development on a Superfund site. It ignored the 2015 law requiring it disclose an annual assessment of whether the project was meeting its job goals, because it did not bother to do the assessment at all. When the assessments were requested by local reporter Flip Pedot of the Graft podcast, the IDA scrambled to get the developer to submit three years of job data retroactively. When Pedot asked the Mayor who sits on and appoints the IDA members if they would claw back the benefits because RXR was in default of the project agreement, the Mayor conceded it was a good point. However, the IDA never moved to recoup taxpayer money.

Thank you for the opportunity to testify today. I welcome any questions you may have.