

# Shortchanged

## Racial Disparities in New York's Economic Development Programs



# Executive Summary

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As scandals continue to mar New York State economic development efforts, one unexamined aspect of the system is how Governor Cuomo's Regional Economic Development Councils (REDCs) shortchange communities of color. This report shows that areas with a higher concentration of people of color across New York State are awarded less than their fair share of economic development funds. New York City, the Mid-Hudson, and Long Island all would have been awarded at least twice as much money since 2011 if they had been awarded the average amount of money per person. Part of the issue may stem from the fact that the councils themselves are not representative: 90% of the regional council directors and co-chairs are white.<sup>1</sup>

This report begins with an overview of economic development in the state. It then describes deficiencies in the councils' process, disparities in funding, and the councils' lack of diversity. It concludes with the following recommendations:

- **Invest in public goods.** Instead of corporate giveaways, the governor should reallocate regional economic development support towards proven investment strategies that measurably improve people's lives, especially in communities of color whose true economic well-being has never been a priority for New York State. Historically underfunded public goods include housing, public transit, healthcare, wage theft enforcement, adult literacy, and restorative justice programs in schools. Across the state, communities of color rely heavily on crumbling mass transit infrastructure that politicians have been shortchanging for years.<sup>2 3</sup> Similarly, under Governor Cuomo, the spending gap between rich and poor school districts has grown to \$9,923 per pupil, a 24% increase.<sup>4</sup>
- **Pass the Database of Deals (S.6613-B and A.8175-A) bill.** The shocking lack of transparency makes comprehensive surveying of economic development programs in New York virtually impossible. This fundamental reform would enable all New Yorkers to see who receives development support as well as how many jobs each project has created and retained. Similar laws already exist on the books in many other states as well as in New York City.<sup>5</sup>
- **Support economic development programs that assist Minority and Women-Owned Business Enterprises.** For example, funding for the Entrepreneurial Assistance Program has been flat at about \$1.7 million for the past 30 years despite various successes. Similarly, New York State set up a fund to support Community Development Financial Institutions in 2007, but it has never received state appropriations.<sup>6</sup>

# Overview of Economic Development in New York State

In 2011, to stimulate regional economies in the wake of the Great Recession, the newly-elected Governor Cuomo restructured the distribution of New York State's economic development funds by creating ten Regional Economic Development Councils (REDCs).<sup>7</sup> These REDC's are tasked with formulating regional strategies based on strengths and needs identified by local stakeholders.<sup>8</sup> Every year, the regions compete for approximately \$750 million in state subsidies to implement regional strategies through grants from Empire State Development (ESD) and other state agencies.<sup>9</sup> For the most part, the REDC program does not represent a new investment in regional economic development and simply is a reorganization of how the state disburses funds. The majority of these funds, roughly \$530 million out of \$750 million is money the state previously allocated through other means.<sup>10</sup> The remainder represents new funding that the ESD allocates to the REDCs.<sup>11</sup>

In the past seven years, Cuomo has awarded over \$5.4 billion in state resources to more than 6,300 projects that are aligned with the regional plans.<sup>12</sup> While the lack of transparency and accountability around job creation results has been a major problem with the REDCs,<sup>13</sup> a mere glance at their projections raises

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questions of efficiency. After seven rounds of funding, the REDCs projected "to create and retain more than 220,000 jobs."<sup>14</sup> This means that their goal was to give out \$25,000 in incentives for each job. The observable outcomes suggest that the numbers may be even worse than the projections suggest. The Start-Up New York program, which Cuomo promised would "supercharge" the economy and was

projected to create 4,100 jobs by 2020, has often fallen woefully short of its goals.<sup>15</sup> In 2014, the program only created 76 jobs.<sup>16</sup> This year, New York State sold a film hub for \$1 after pouring \$15 million into it.<sup>17</sup> For more context, a 2015 Citizens Budget Commission report found that only 7 percent of sampled REDC projects reported both projections and results for job creation.<sup>18</sup>

To apply for the REDC's central pool of resources, project-based proposals are accepted through an online portal. Each application is first reviewed by the REDC members for the region in which the proposed project would be located. REDCs are public-private partnerships, and council members are appointed by the Governor's office and comprised of leaders from local business, academia, government, and nonprofits.<sup>19</sup> Council members score each funding application based on its alignment with the regional strategy. The REDC score accounts for 20% of the proposal's overall score. The remaining 80% is determined by the appraisal of the relevant funding state agency.<sup>20</sup>

REDCs evaluate the performance and progress of funded projects. Annual progress reports are posted online. There is, however, no standardized method of measuring results.<sup>21</sup> This makes a comprehensive evaluation impossible. Uniform metrics and guidelines would help resolve this issue.<sup>22</sup> Empire State Development (ESD) helps manage the REDCs, and ESD's Regional Directors lead each regional council.<sup>23</sup> The Lieutenant Governor chairs each regional council.<sup>24</sup>

Moreover, there are numerous small economic development programs that, while receiving only a fraction of the resources of the state's other economic development programs, have disproportionately supported Minority and Women-Owned Business Enterprises (MWBE). One such example is the Entrepreneurial Assistance Program (EAP). EAP Centers provide services to small businesses, especially MWBEs. The EAP's 2016-2017 Annual Report notes that 89 percent of over 1,000 new clients are MWBE, and 77 percent come in without a business plan.<sup>25</sup> With the support of the EAP, these MWBEs were able to increase employment by 576 people.<sup>26</sup>

Despite the success of this program, it has been virtually flat-funded for the last 30 years of its existence (an average appropriation of \$1.7 million per year). In addition to expanding its investment in public goods provision (see below), New York State should support communities of color more effectively by growing such programs rather than continually backing speculative mega-projects that, as evidence suggests, are prone to corruption.

## Corruption and Conflicts of Interest

At its inception, Governor Cuomo touted the REDC structure as a shift from New York's previous "top-down development model to a community-based approach."<sup>27</sup> Rather than pork barrel spending decisions being made behind closed doors in Albany, the promise of the REDC model was a transparent decision-making process based on local knowledge of regional strengths and needs. Economic development—a keystone of Cuomo's promise to reform state politics—has been at the center of some of the most damning corruption allegations against Cuomo and his administration.

A 2013 *New York Times* investigation found that in Cuomo's first 20 months, a third of the ESD's 49 hires had ties to governor, including numerous relatives of donors.<sup>28</sup> In 2015, Howard Zemsky became ESD's president and chief executive; Zemsky and his wife have donated a combined \$125,000 to Cuomo.<sup>29</sup> Zemsky is a major property developer in the Buffalo, New York region.

ESD and the REDCs have been at the center of numerous "pay-to-play" schemes. One of the most scandalous involved the conviction of

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Governor Cuomo's former top aide, Joseph Percoco, on three corruption charges for soliciting and accepting more than \$300,000 in bribes from executives from two companies receiving state funding,<sup>30</sup> including a \$35,000 bribe from COR Development.<sup>31</sup> COR Development is a Syracuse company that received a \$1.5 million ESD grant for infrastructure improvements. In exchange for a \$35,000 bribe Percoco convinced the state to drop a costly union requirement.<sup>32</sup>

Similarly, a federal jury convicted Alain Kaloyeros, former president of the State University of New York Polytechnic Institute, of a bid-rigging scheme that involved hundreds of millions of dollars.<sup>33</sup> The ESD-administered projects were part of Cuomo's Buffalo Billion revitalization initiative and went to Cuomo campaign donors.<sup>34</sup>

Questions have also been raised about "silver-bullet" projects that receive economic development funds without clear criteria.<sup>35</sup> More than a billion dollars were spent on projects such as a TESLA factory before any jobs were created.<sup>36</sup>

State Assembly members have criticized the REDC structure for the lack of transparency in decision makers' financial investments, which may result in conflicts of interest.<sup>37</sup> Currently, REDC council members must produce their "statements of interest," but they are not public records.<sup>38</sup> During a January hearing on economic development, the state lawmakers pressed to make REDC members subject to the same financial disclosure requirements as thousands of state workers.<sup>39</sup> Governor Cuomo and ESD President and CEO, Howard Zemsky, have pushed back against that proposal. Zemsky asserted, "These folks don't have any statutory responsibility. They can't actually enact anything based on their decision-making."<sup>40</sup> Proponents of the disclosure requirement claim that the public should have the right to see if the projects being scored by REDC council members have connections to those making funding recommendations.

This is particularly important given that council members are appointed by the Governor's office, which often selects business leaders vying for state funds. For example, the Southern Tier REDC is co-chaired by Dr. Harvey Stenger, the President of Binghamton University (BU) and Tom Trater, the President of Corning Enterprises.<sup>41</sup> Through the first six rounds of REDC funding, BU and Corning collectively won \$51 million in state funds, approximately 11% of the region's \$481 million total.<sup>42</sup> Though council members are asked to recuse themselves when discussing proposals where they may have a conflict of interest, critics worry that their influence may remain, especially considering the lack of transparency in the process.<sup>43</sup>

## Disparities in Funding

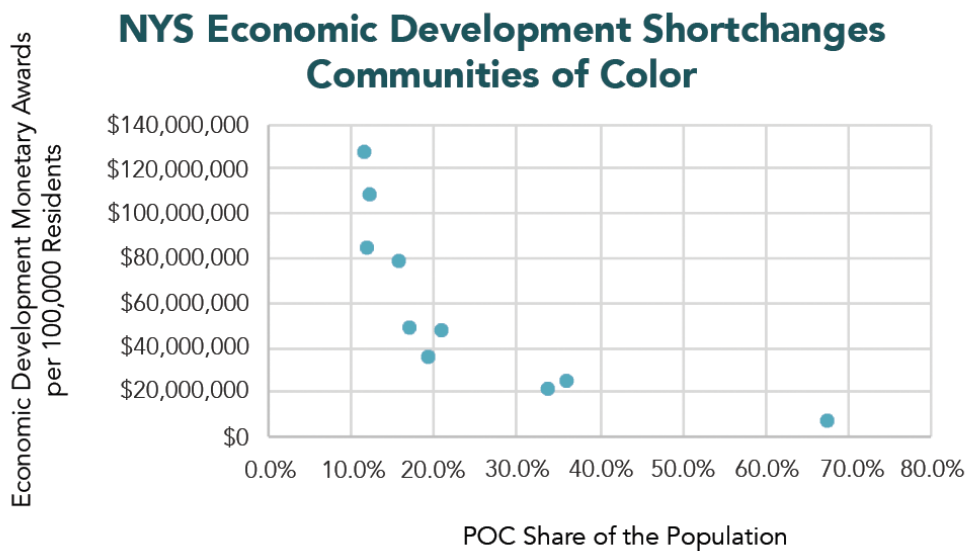
In order to evaluate whether the Regional Council Competition shortchanges communities of color, we calculated how much the ten regions have been awarded over the past seven years of the competition.<sup>44</sup> Adding demographic data from the 2012-2016 five-year American Community Survey,<sup>45</sup> we

aggregated county-level data to evaluate the amount of economic development money each region was awarded per 100,000 people.

This is the best available data source given that the state does not publicize all the necessary data to answer in greater detail whether, and how much, the process shortchanges communities of color.<sup>46</sup> Working to address this question using accessible data has made it clear that a single database of deals is an important common-sense step for public accountability.

## Results

The Regional Council Competition is one of the largest sources of economic development money in the state, awarding a total of \$5.4 billion since Cuomo created the system in 2011.<sup>47</sup> Historically, this system has shortchanged communities of color. As the scatter plot below shows, regions with a higher share of people of color (POC) residents have been awarded less economic development money per 100,000 residents.



Sources: Governor's Office<sup>48</sup> and 2012-2016 American Community Survey<sup>49</sup>

The figure above suggests a negative relationship between the POC share of the population and the economic development money per 100,000 residents with a correlation coefficient of  $-0.76$ . This means that in general regions were awarded less funding per person when people of color made up a larger share of the population.

Furthermore, it is possible to estimate the amount of money that each region would have been awarded if it won the average amount of money per person statewide--in other words, its fair share. The table below shows the money awarded by each region as well as the money awarded per 100,000 people. It highlights the fair share of money due to each region, which is \$57.6 million per

100,000 people. The table also displays the ratio of each region’s fair share to the money they were awarded. By this calculation, New York City, the Mid-Hudson, and Long Island all should have been awarded at least twice as much. New York City would have been awarded more than ten times more.

### Money by Region (Ordered by Percent POC)

Region	Percentage People of Color (POC)	Money Awarded (in Millions)	Population (in Millions)	Money per 100,000 People (in Millions)	Fair Share (Assuming Regional Average, in Millions)	Ratio of Fair Share to Money Awarded
New York City	67.8%	\$465.2	8.5	\$5.5	\$4,876	10.5
Mid-Hudson	36.2%	\$560.7	2.3	\$24.2	\$1,337	2.4
Long Island	34.1%	\$570.8	2.9	\$20.0	\$1,645	2.9
Finger Lakes	21.3%	\$570.0	1.2	\$46.8	\$702	1.2
Western New York	19.6%	\$487.2	1.4	\$35.0	\$803	1.6
Capital Region	17.4%	\$522.0	1.1	\$48.1	\$625	1.2
Central New York	16.1%	\$615.5	0.8	\$78.1	\$454	0.7
Mohawk Valley	12.5%	\$529.6	0.5	\$107.4	\$284	0.5
Southern Tier	12.4%	\$547.9	0.7	\$84.1	\$375	0.7
North Country	11.8%	\$549.5	0.4	\$127.1	\$249	0.5

Sources: Governor's Office<sup>50</sup> and 2012-2016 American Community Survey<sup>51</sup>

These results demonstrate that the regional council competitions have shortchanged regions with less white populations to the tune of billions of dollars. While defenders of the current system might point to the fact that regions have been awarded around the same amount of money through the competitions, people in every region should have the same chance to receive state economic development money on a proportional basis. Creating regions with much larger populations systematically disadvantages communities of

color. Furthermore, the state's current competition does not strategically invest more in regions with higher rates of poverty. In fact, the region with the highest rate of poverty in the state, New York City,<sup>52</sup> was awarded the least amount of money per person.

## Lack of Diversity in REDC Leadership

Governor Cuomo's regional council director appointments often do not adequately reflect the diversity of the regions they represent. Greater diversity among these decision makers would likely help ensure that various communities' priorities are heard, understood, and funded.

For this analysis, we assessed the race and gender of the REDC regional council directors and co-chairs, and determined the following breakdown:<sup>53</sup>

- 90% white (26 out of 29)
- 72% male (21 out of 29)
- 66% white male (19 out of 29)

Seven of the ten regions do not have a single person of color in a REDC leadership role, including the Mid-Hudson and Long Island councils, while 36.2% and 34.1% of the populations of those regions are people of color, respectively.

Expanding the analysis to all appointed council members,<sup>54</sup> 83% percent are white. While a more diverse leadership would not necessarily lead to funding decisions that prioritize the needs of communities of color, the lack of diversity is a red flag that this process is not working for all

communities. With critics arguing that the process is broken because of the lack of transparency and REDC leaders ability to apply for funding, the lack of diversity suggests that this corrupt system also reinforces racial disparities in New York.

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Fixing this system requires significant transformation. The following section describes two central recommendations for policy makers centered around the need to increase transparency and invest in solutions that we already know support communities of color.

## Recommendations

Properly addressing economic development requires moving towards significant investments in public goods as well as transparency. This report makes the following recommendations:

- **Invest in public goods.** Instead of corporate giveaways, the governor should reallocate regional economic development support towards proven investment strategies that measurably improve people's lives,



especially in communities of color whose true economic well-being has never been a priority for New York State. Historically underfunded public goods include housing, public transit, healthcare, wage theft enforcement, adult literacy, and restorative justice programs in schools. Across the state, communities of color rely heavily on crumbling mass transit infrastructure that politicians have been shortchanging for years.<sup>55</sup> <sup>56</sup> Similarly, under Governor Cuomo, the spending gap between rich and poor school districts has grown to \$9,923 per pupil, a 24% increase.<sup>57</sup>

- **Pass the Database of Deals (S.6613-B and A.8175-A) bill.** The shocking lack of transparency makes comprehensive surveying of economic development programs in New York virtually impossible. This fundamental reform would enable all New Yorkers to see who receives development support as well as how many jobs each project has created and retained. Similar laws already exist on the books in many other states as well as in New York City.<sup>58</sup>
- **Support economic development programs that assist Minority and Women-Owned Business Enterprises.** For example, funding for the Entrepreneurial Assistance Program has been flat at about \$1.7 million for the past 30 years despite various successes. Similarly, New York State set up a fund to support Community Development Financial Institutions in 2007, but it has never received state appropriations.<sup>59</sup>

## Conclusion

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Economic development programs in New York State shortchange communities of color. New York City, the Mid-Hudson, and Long Island all would have been awarded at least twice as much money since 2011 if they had been awarded the average amount of money per person, representing billions of dollars. Part of the issue may stem from the fact that the councils themselves are not representative: 90 percent of the regional council directors and co-chairs are white.

A database of deals would provide the necessary transparency to root out much of the corruption in the current economic development programs. Still, corporate handouts should not be at the core of the state's economic development strategy. A clear alternative is in deepening public investment in public goods such as education and the subway. Governor Cuomo ought to discard the current New York State development system that has been shortchanging communities of color billions of dollars and shift his focus to investment priorities that clearly work.

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<sup>52</sup> This data comes from the 2012-2016 American Community Survey. New York City's high rate of poverty coincides with rapid growth for certain people in the region.

<sup>53</sup> An assessment was made based on publicly available information, which required us to make a determination based on photographs, surnames and other accessible background information.

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<sup>56</sup> Carpenter, Bill. Testimony Concerning the SFY 2018-19 Executive Budget Proposal Relating to Transportation. New York Public Transit Association, Inc. January 25, 2018.

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<sup>57</sup> "Governor Cuomo's Budget Fails Black, Brown & Low-Income Students Again."

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<sup>58</sup> "The New York City Council - File #: Int 1337-2016." The New York City Council.

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<sup>59</sup> Abello, Oscar Perry. "Is This The Year for Stalled New York State CDFI Fund?" Next

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