BRIEF LOOK

Building a More Equitable New York
Economic Development

February 12, 2020

NEW YORK STATE AND ITS LOCAL GOVERNMENTS CURRENTLY SPEND about $10 billion annually on a broad array of economic development programs throughout the state. There are dozens of different programs that provide a myriad of benefits, from cash grants to tax exemptions, tax credits (including many that are refundable and therefore paid in cash), and tax-exempt bonds. Most of these benefits go to big businesses in the name of job creation and economic growth, but the results are very far from clear.

Genuine economic development is much needed in New York, but these programs are not the real thing. What the state should do instead is invest in what really helps New York businesses to thrive and attracts businesses to the state, such as strong infrastructure, a highly educated workforce, great schools, and livable communities. Trying to lure companies to the state with tax incentives and other shiny objects is a fool's errand, not a solid plan for economic growth. These primary investments can also be supplemented by targeted and much more modest investments in nurturing small business development and neighborhood revitalization.

Tax Incentives—A Failed Approach

The state's heavy reliance on tax incentives as an economic development strategy is fundamentally misguided. After many decades, there is little to show for these tax breaks beyond a trail of political scandals. A detailed study of New York's business tax credits, prepared in 2013 by economists Donald Boyd and Marilyn Rubin for the Tax Reform Commission empaneled by Governor Cuomo, firmly stated that "there is 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." The governor and the legislature should pay attention to the findings of this thorough analysis.

While job-creation results have been meager, political scandals have been in abundance. Those that have come to light center around bid rigging of state contracts, lack of transparency, and lack of accountability—issues that have not been substantively addressed despite repeated media coverage and more than a few criminal convictions. Lack of accountability masks the failings of these development programs.

Regional Economic Development Councils

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). These REDCs are tasked with formulating regional strategies based on strengths and needs identified by local stakeholders. 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. For the most part, the REDC program does not represent a new investment in regional economic development, it is simply a reorganization of how the state disburses funds. Most of these funds, roughly $525 million out of $750 million, represent money the state previously allocated through other means. The remainder is new funding that the ESD allocates to the REDCs.

According to the governor, in the past nine years the state has awarded 6.9 billion to more than 8,300 projects that are aligned with the regional plans. Even without the transparency and accountability that would allow for a more thorough analysis, a mere glance at the REDC projections raises questions of efficacy.

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." Rather than pork barrel spending decisions being made behind closed doors in Albany, he argued, the promise of the REDC model was a transparent decision-making process based on local knowledge of regional strengths and needs. Yet 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 Governor Cuomo and his administration.

Economic development projects have been involved in numerous "pay-to-play" schemes. One of the most scandalous involved the conviction of 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, including a $35,000 bribe from COR Development.[1] 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 contract requirement.

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. The ESD-administered projects were part of the governor's "Buffalo Billion" revitalization initiative, and the benefits often flowed to the governor's campaign donors. Questions have also been raised about "silver-

[1] Knauss, Tim. "NY Corruption Trial: Feds Say Email Trail Lays out Crime in Syracuse." Syracuse.com. January 22, 2018

bullet" projects that receive economic development funds without clear criteria. More than a billion dollars was spent on a Tesla factory, for example, before any jobs were created.

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. Currently, REDC council members must produce "statements of interest," but these are not public records. During a January 2018 hearing on economic development, the state lawmakers pressed to make REDC members subject to the same financial disclosure requirements as thousands of state workers.[2]

Governor Cuomo and former 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."[3] However, proponents of the disclosure requirement rightly argue 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.

Accountability and transparency are particularly important given that council members are appointed by the governor's office, which often selects for the job business leaders vying for state funds. For example, the Southern Tier REDC is co-chaired by Dr. Harvey Stenger, president of Binghamton University (BU), and Tom Trater, president of Corning Enterprises. Through the first six rounds of REDC funding, BU and Corning in total won $51 million in state funds, approximately 11 percent of the region's $481 million total.[4] 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. To mitigate these serious conflicts of interest, the state should not allow any sitting member's business or organization to receive awards.

Solutions to Address a Lack of Transparency and Accountability: Database of Deals?

The Fiscal Policy Institute and other organizations have proposed creating a single "Database of Deals," managed by ESD, for all state subsidies to businesses, including grants, loans, tax credits, tax-exempt financing, as well as discounted energy. Last year, $500,000 was included in an appropriation bill to create this database, but sadly there was no accompanying Article VII language clearly spelling out how the database would be constructed and what information would be included. To date, there has been little public discussion on the status of completing this database other than in recent press reports that indicated it would be completed by the end of 2020.

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[2] Jain, Rahul, and Riley Edwards. An Assessment of Performance Reporting by Regional Economic Development Councils. Report. Citizens Budget Commission, https://cbcny.org/sites/default/files/media/files/REPORT_REDC_11302015_0.pdf

[3] Precious, Tom. "Zemsky Says Regional Council Members' Finances 'not Public Records'." The Buffalo News. January 29, 2018. http://buffalonews.com/2018/01/29/zemsky-says-regional-council-members-finances- not-subject-to-sunshine-law/.

[4] Sharp, Brian. "Transparency, Accountability at Issue in Handling Billions of Taxpayer Dollars." Rochester Democrat and Chronicle. June 09, 2017. https://www.democratandchronicle.com/story/news/2017/06/07/ny-regional-economic- development-councils-lack-oversight-handle-billions/360099001/.

Businesses often receive subsidies from multiple programs, but it is difficult for the public to tally the full cost to the state. This new portal should provide a clear picture of the state's economic development projects, as well as enhance the state's ability to track the return on its investments. Other states have moved forward on this front. It's time for New York State to finish the job it started.

The language in last year's appropriations bill did not contain any requirements for the design and functionality of the Database of Deals, nor does it specify tracking or publication of different types of jobs created or retained or the variety of business subsidies received. Assembly Bill 2334, of 2019, provides a good model for statutory change to create a Database of Deals.

Opportunity Zones: Opportunity for Who?

Created by the 2017 tax law, the opportunity zone (OZ) provision lets investors defer taxes on capital gains (profits from the sale of appreciated assets, such as stocks) by "rolling" those gains into funds that invest either in property in opportunity zones or in businesses operating at least partially in opportunity zones. If investors keep that money in these funds for a certain number of years, they can get more tax breaks — including lower taxes on their deferred capital gains and a permanent tax exemption on all capital gains on their OZ investments. That's on top of the generous tax advantages that capital gains already enjoy, including a preferential rate and the ability to defer taxes until appreciated assets are sold.

The direct tax benefits of opportunity zones will flow to wealthy investors and, as the Center on Budget and Policy Priorities and others have warned, there's no guarantee their investments will ultimately help distressed communities.

Instead, New York should decouple from the OZ tax breaks, leaving it to the federal government to subsidize OZ investments. That would be doubly wise given the serious concerns that the federal OZ tax breaks will largely provide a windfall for investments that would have occurred anyway and lead to gentrification and displacement in OZs rather than new jobs and higher incomes for zone residents.

Smart Investing and Careful Accounting Promote Real Economic Growth

Rather than chasing smokestacks or throwing tax cuts at business, the state's economic development policy should be focused on smart investments that improve the local economic climate, with careful accounting of benefits to local communities. The goal must be overall economic growth, not the mere shifting of activity from one area or one state to another.

Smaller scale programs like the Innovations Hot Spots Program (small business incubators that share services and work closely with universities) make more sense than traditional mega-deals. There are also long overlooked and underfunded programs that have a successful track record such as the Entrepreneurial Assistance Program (EAP) and the Community Development Financial Institutions (CDFI) fund. These two programs have been in operation for decades and are designed to provide training and technical assistance to individuals who want to start their own business and provide the capital needed to create these small enterprises. This year the governor wisely proposed creating an Excelsior Banking Network to provide $25 million in new seed funding over the next five years for the CDFI fund. CDFI's have the ability to use state dollars to leverage federal and private funds to provide an array of lending and banking services in economically distressed areas of the state. This is indeed a move in the right direction.

Another policy with significant employment potential would be to provide contract procurement preference to bidders committed to domestic and New York manufacturing, particularly important in the case of large transportation equipment orders under the Metropolitan Transportation Authority's five-year capital plan. Investing in new busses and subway cars are in effect investments in upstate economic development, since many of the busses and subway cars are made upstate.

We must also accept the fact that what ultimately makes for the best business climate is investments in public schools and institutions of higher education, labor force development, transportation, parks, and other infrastructure that build a skilled labor force and attract business owners and workers based on quality of life. It is these fundamentals that will make the biggest difference in whether or not New York State is an attractive place for employers to locate and employees to live. What we typically call "economic development" is in the end marginal to what makes New York an attractive place to do business.

Recommendations

- Severely curtail or repeal state subsidies to businesses and reinvest those dollars into education, infrastructure and public services.
- Create the promised Database of Deals to ensure transparency in subsidy awards.
- Decouple from federal Opportunity Zones.
- Require REDC members to be subject to the same financial disclosure requirements as thousands of state workers and don't allow members of the REDC to award their businesses or institutions funding.