Policy Brief

Economic Development

February 2017

New York State and its local governments currently spend approximately $9 billion annually on a broad array of economic development programs throughout the state (see chart on next page). 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 paid in cash), and tax-exempt bonds. The vast majority of these benefits go to big businesses in the name of job creation and economic growth, but the results leave much to be desired.

Tax Incentives – A Failed Approach

The state's heavy reliance on tax incentives as an economic development strategy is a misguided approach, as after many decades there is little to show 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.

At the same time that job-creation results have been meager, political scandals have been in abundance, centering around bid rigging of state contracts, transparency and accountability— issues that have not been substantively addressed, despite repeated media coverage. Lack of accountability, alone, is a problem; but it also masks the failings of these development programs.

On a positive note, Empire State Development (ESD) is now required to submit an annual report regarding the commercial production tax credit. The report is required to indicate the name of each production company receiving the credit, the amount of the credit, the estimated number of employees, and the amount of eligible wages paid.

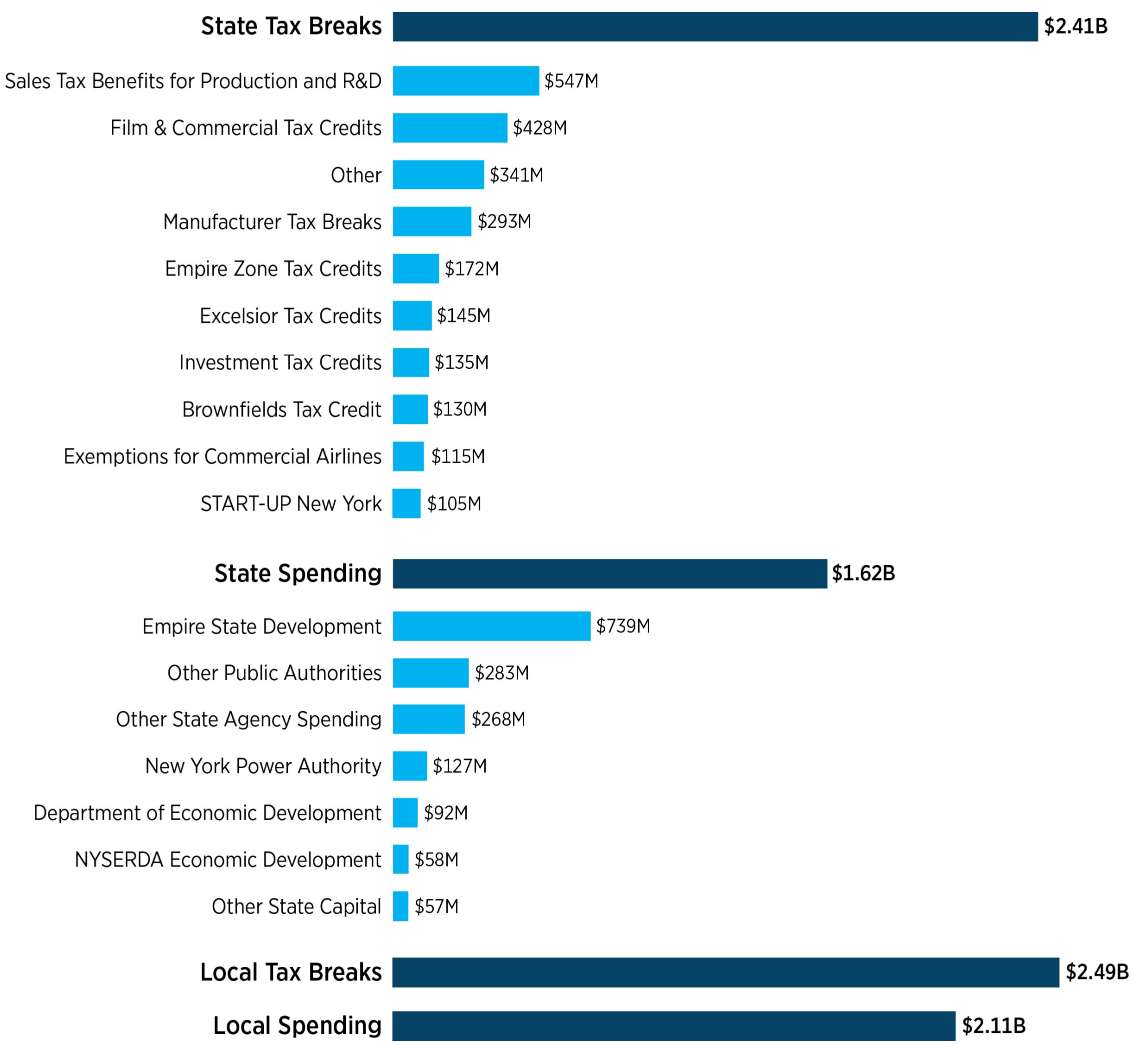
Industrial Development Authorities: Lack of Accountability, Lack of Results

Numerous audits from the Office of the State Comptroller call into question whether the state is getting its money's worth from Industrial Development Agencies (IDAs).[1]

A 2013 comptroller's report revealed that of the 4,486 current IDA projects, 1,161 do not promise to create a single job. Sixty-eight percent of the 407 IDA projects that ended in 2011 either lost jobs, did not create jobs, or did not meet their job creation targets, falling a total of 32,153 jobs below their targets.

Fig 1. Where Does Our $9 Billion in Economic Development Spending Go?

SUMMARY OF ANNUAL NEW YORK STATE AND LOCAL ECONOMIC DEVELOPMENT COSTS



Source: Citizens Budget Commission, https://cbcny.org/research/increasing-without-evidence, September 2016.

[1] IDAs are public benefit corporations authorized under state law and intended to encourage and subsidize private business investment in order to enhance job opportunities, general prosperity, and the economic welfare of the people of the state, and in particular of the people of the locale where it is located. Currently, there are 115 active IDAs in New York.

More recent audits have found deficiencies in IDA processes related to approving projects, monitoring project performance against goals, and recouping benefits from projects that failed to meet promised economic and job targets. Several audits also highlighted deficiencies in monitoring both tax exemptions given to IDA projects as well as the PILOTs (Payments in Lieu of Taxes) the projects were required to pay to local governments and school districts in place of forgone property taxes. This puts added pressure on property taxpayers in the locality, or, in the face of the state's local property tax cap, forces reductions in local school budgets and other local services.

Regional Economic Development Councils (REDC)

The Executive Budget provides another $150 million for a seventh round of Regional Economic Development Councils' competitive awards, and $70 million in Excelsior Tax Credits designated for this same purpose. Thus far, the governor has funded six rounds of REDC awards, totaling approximately $4.5 billion.

REDCs are a structure initiated in the first Andrew Cuomo administration. The idea of local input to economic development is fundamentally sound, as is the approach of setting specific economic development decisions in a comprehensive picture of a region's economic strengths and weaknesses. The quality of REDC processes varies by region, and there are questions about the extent to which decisions are truly made by REDCs or simply echo priorities out of the governor's office. In general, the REDCs are a potentially useful innovation.

But, as in so many areas of economic development, accountability is a crucial issue, in order to both avoid corruption and to be able to provide an honest assessment of the economic development strategies. While the state continues its attempt to improve the REDC reporting requirements, it is still falling short in many ways. Job results are currently reported in aggregate, not by individual project; so, there is no real way to determine the performance of individual firm-specific projects relative to their job creation and retention projections. As with numerous economic development programs, New York needs to collect and publish actual firm-specific data on total costs, jobs created, and jobs retained to be able to judge the efficacy of these efforts.

REDCs and Poverty Alleviation

In November, 2016, Governor Cuomo announced the allocation of nearly $16 million to support three Rochester-based projects aimed at reducing poverty in the Finger Lakes region, a welcome investment in a critical issue.

These projects are the first to receive funding through the Finger Lakes Regional Economic Development Council's "One Community Plan," which identifies priority projects that develop "cradle-to-career" workforce readiness initiatives. Poverty reduction is now incorporated as a core goal of the Finger Lakes Regional Economic Development Council's strategic plan.

Poverty reduction should become a focus of all the Regional Economic Development Councils, and they should all devote resources to ensuring families living in poverty have opportunities to get the skills and training they need to move into the jobs that are being created in each region. There should also be a greater level of cooperation and coordination between REDCs and the governor's Empire State Poverty

Reduction Initiatives (ESPRI) that are taking shape in 16 localities across the state. With unacceptably high rates of child poverty and overall poverty among African Americans and Hispanics in many of our upstate cities (some higher than 50 percent), poverty alleviation should be a major focus for every REDC in New York State.

Manufacturing in New York State

Since the early 2000s, the state has spent lavishly to foster big-ticket manufacturing and technology projects upstate. Nearly one-third of the $1.1 billion in new tax credits and other business tax breaks enacted since FY 2010 have benefitted manufacturing. And, while technology investments made in the Capital District have generated some employment and economic growth payoff, it is not clear whether other mega investments warrant the scale of state investments that have been committed. In addition to enacting sweeping contracting reforms discussed below, the state should undertake an assessment of the economic viability of its large manufacturing and technology investments.

There is no doubt about the need to focus on New York's manufacturing. New York's manufacturing jobs, long the economic foundation of most upstate regions, have not shared in the modest manufacturing rebound occurring nationwide. Since 2000, during the same period the state poured money into high-cost tax incentives and mega technology and manufacturing projects, upstate regions have lost nearly 150,000 manufacturing jobs, 36 percent of the total. Job growth in upstate New York has been primarily in lower-paying jobs; no other sector has emerged to provide the sort of middle-class livelihoods most manufacturing jobs made possible.

Trade and technological advances have dramatically reduced the number of manufacturing jobs in most parts of the U.S. Still, within this landscape, some sectors in some regions are seeing growth in factory jobs. Food manufacturing employment has risen by 11 percent since 2010, with gains in a number of regions; and overall manufacturing employment gained by over 20 percent in the Capital region, largely due to job gains in the region's high-paying electronics industry.

Many manufacturing operations have benefitted from fairly modest state investments in workforce training and productivity-enhancing assistance. These should be continued, and with better targeting for large strategic investments and active use of procurement opportunities, the state can more effectively maintain viable manufacturing operations and the valuable middle-class jobs they provide.

START-UP NY Shutting Down

After yet another abysmal report on the effectiveness of the START-UP NY program, the governor has decided to repackage and rename this program. The governor proposes instead to establish the Excelsior Business Program, which merges START-UP NY with the Excelsior Jobs Program, thereby effectively eliminating START-UP NY.

The proposed new Excelsior Business Program is redesigned to allow new and expanding small businesses to receive tax credits for job creation, as well as for conducting research and development in New York State. To become eligible for the program, a business must be a non-publicly traded entity, must not be more than five years old, and must not have employed more than 25 persons one year prior to participation.

Additionally, the Excelsior Business Program has expanded the type of businesses eligible for participation to include retail, restaurants, professional firms, hospitality and financial services establishments. Under the program, businesses are no longer required to be located on not-for-profit college or university campuses, but may operate on owned or leased property. For eligibility to participate in the Excelsior Business Program, a business is required to demonstrate that it will create and maintain in its first five years of operation at least *one net new job*. This Executive Budget proposal removes numerous reporting requirements and benchmarks, but still requires an annual report.

START-UP NY was established in 2013 to “transform” SUNY, CUNY, and private college and university campuses, as well as communities across the state, into tax-free zones, ostensibly to attract new businesses and to encourage existing businesses to expand. In April 2015, Empire State Development (ESD) released a preliminary START-UP NY review, which showed very poor results: 76 jobs were created in 2014, compared to $53 million in tax dollars spent on advertising alone.

The most recent annual report on START-UP NY did not show much improvement. In 2015, the program created 335 jobs—bringing the total to 408 jobs.

The program’s focus on clustering businesses around universities makes sense. What is fundamentally misguided is the idea that creating tax-free zones might be sound economic development policy. Local taxes are simply not a primary determinant of business investment decisions, and that instead, prominent factors include the quality of the labor force, the quality of life, and the efficiency of a locale's physical infrastructure.

Forward Thinking Pays Off

A better approach to blending academia with business is evidenced in the New York State Certified Business Incubator and Innovation Hot Spot Program that was enacted as part of the 2013-14 State Budget. This innovative program provides financial support for business incubators in the state to facilitate entrepreneurial activity.

ESD has designated 10 Innovation Hot Spots—one for each of New York State’s 10 economic development regions—and 20 Certified Business Incubators, and provides funding to expand services and assist a greater number of early stage companies. These designees are operated by universities, colleges or nonprofit organizations, and coordinate regional incubation activities while focusing their services on a particular industry of strategic interest to that region.

Through this program, designated companies can improve physical space, share administrative staff, access to capital, coaching, mentoring, networking connections, prototype development, and access to other technical services. Moreover, client businesses of the Innovation Hot Spots have access to tax benefits to assist them through their early growth stage.

In its second year, and with 20 of the current 30 designees in operation and reporting, the program created and retained 1,387 jobs and is funded at $5 million per year. The program created three times the number of jobs of START-UP NY, and at a fraction of the cost.

Buffalo Billion Phase Two and Other Business Subsidy Projects

The Executive Budget provides a new $400 million appropriation to expand the "Buffalo Billion Phase Two" Initiative. An additional $100 million in yet unidentified resources would also be provided through the Executive Budget, providing a total $500 million for Phase Two.

Before another round of Buffalo Billion funding is launched, some of the glaring contracting problems that evolved in the first round need to be addressed. Governor Cuomo has resisted independent oversight of executive branch contracting, despite an administration that has been plagued by the largest bid rigging scandal in state history (resulting in the arrest of nine people by U.S. Attorney Preet Bharara).

The governor's budget also proposes giving hundreds of millions of taxpayer funds to scandal-plagued Fort Schuyler Management and Fuller Road Management—the state controlled nonprofits at the center of the bid-rigging scandal—which still do not have independent oversight of their contracting from the Comptroller's Office.

Reforming the Contracting Process

The public has not forgotten that in September 2016, several high-level officials in state government were arrested for rigging economic development contracts worth nearly $800 million. The need to restore the public's trust in New York's scandal-scarred state government has been the topic of conversation throughout the state over this past year. Fundamental changes to how the state awards over a billion dollars per year in economic development contracts are sorely needed and would be a great starting point.

In numerous letters, the Fiscal Policy Institute (along with the Citizen's Budget Commission and ReInvent Albany) has urged executive and legislative leaders to consider major contracting reforms to restore public confidence. We continue to call for fundamental changes to ensure that billions in state economic development contracts are awarded fairly and transparently.

Five Common Sense, Clean-Contracting Reforms:

- Require competitive and transparent contracting for the award of state funds by all state agencies, authorities, and affiliates. Use existing agency procurement guidelines as a uniform minimum standard;
- Transfer responsibility for awarding all economic development awards to Empire State Development Corporation (ESDC), and end awards by state nonprofits and SUNY;
- Empower the comptroller to review and approve all state contracts over $250,000;
- Prohibit state authorities, state corporations and state nonprofits from doing business with their board members; and
- Create a "Database of Deals" to allow the public to see the total value of all forms of subsidies awarded to a business, as six other states have done.

Increase the Transparency of Business Subsidies

Thanks to the historic decision by the Government Accounting Standards Board (GASB), 2017 begins a new era for collecting business subsidy data. The new standard, covering GAAP-compliant budgets started in mid-December 2015, requires all state and local governments to report how much revenue they lose to tax abatements or economic development tax expenditures. The policy creates a tremendous opportunity in New York. The governor should join the state comptroller to leverage a comprehensive, national standard on economic development transparency.

New York City Comptroller Scott Stringer is the first government officer in the United States to comply with the new accounting rule requiring the disclosure of how much revenue is lost to corporate tax breaks given for economic development. More than 50,000 state and local government bodies are expected to issue such data over the next two years. The new data is mandated by GASB Statement No. 77 on Tax Abatement Disclosures, but New York City was not technically required to include the data until its next financial report (to be issued in fall 2017). New York City became the first sizeable governmental entity to report GASB 77 in its FY 2016 Comprehensive Annual Financial Report (CAFR), released on October 31, 2016. The city reported tax abatements exceeding $3 billion, a 5.6 percent increase in abatements over FY 2015.

New York State has recently improved the transparency and coordination of numerous business subsidy programs. Project-specific information for Excelsior, Brownfields, and ReCharge NY is now published on the Open NY portal in a machine-readable, downloadable format. The state has also simplified the process of applying for subsidies with the Consolidated Funding Application (CFA). Project information for a range of major initiatives, however, is either not published, incomplete, or is not machine-readable (including subsidies provided by the REDCs, SUNY Poly, SUNY RF and nonprofit entities controlled by the state). Some published data are fragmentary and not useful—like datasets of START-UP NY and Film/TV locations without a project PIN or subsidy amount. Only limited information from CFAs is made publicly available.

Despite these modest improvements in the transparency and coordination of business subsidy programs, the state still fails to produce a holistic view of how $9 billion in tax dollars are being spent.

FPI, along with Citizens Budget Commission and ReInvent Albany, proposes creating a single “Database of Deals,” managed by ESD, for all state subsidies to businesses, including grants, loans, tax credits, tax-exempt financing, and discounted energy. Businesses often receive subsidies from multiple programs, but it is difficult for the public to tally the full cost to the state. A new portal will 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, and it’s time for New York State to catch up.

Focus on Upstate: The Right Priority, the Wrong Approach

A substantial amount of New York State’s economic development is focused on strengthening the upstate economy. The state should expect better results from its economic development efforts, but the attention on upstate is well placed.

Aggregate economic data for New York State masks considerable unevenness in the upstate region. From the economic high point reached in December 2007 before the onset of the Great Recession of 2008-09, to December 2016, the number of overall jobs in New York increased by 6.6 percent, slightly better than the national 5 percent job gain. But, most of the state's growth was concentrated in New York City (14 percent growth) and the downstate suburbs (3.4 percent growth), while the job count in the 52-county upstate area ticked up by a fairly nominal 0.6 percent over that 9-year period. That's a paltry net gain of 20,000 jobs on a base of 3 million. There was also unevenness within upstate. While the Albany, Buffalo and Rochester metro areas saw 1 to 2 percent job growth over the period, there were net job declines in the Syracuse metro area (minus 2 percent), the mid-Hudson Valley (minus 3 percent), the Utica-Rome area (minus 5 percent), and Binghamton experienced an 11 percent job loss. Upstate job trends were slightly better in 2016 than the year before, but not as strong overall as in either 2011 or 2013.[2]

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 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.

In addition to the aforementioned Innovations Hot Spots Program, there are 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 (in the case of EAP) and provide the capital needed to create these microenterprises.

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.

We must also accept the fact that investments in public and higher education, labor force development, transportation, information, and other infrastructure create a quality of life and skilled labor force that makes New York State an attractive place for employers to locate and employees to live.

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The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared..

[2] FPI analysis of NYS Labor Department total non-agricultural payroll employment from December 2007 to December 2016.