Economic and Fiscal Outlook 2020

New York's Pathway to Shared Prosperity

Economic Development

Fiscal Policy Institute

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New York State and its local governments currently spend over $9 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. The vast majority of these benefits go to big businesses in the name of job creation and economic growth, but the results are very far from clear.

Tax Incentives – A Failed Approach

The state's heavy reliance on tax incentives as an economic development strategy is a misguided approach. 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 and more than a few indictments. 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 and simply is a reorganization of how the state disburses funds. The majority of these funds, roughly $530 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 eight years the state has awarded over $6.1 billion to more than 7,300 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 efficiency.

The observable outcomes suggest that the numbers may be far worse than the projections suggest. The Start-Up New York projected to create 4,100 jobs by 2020, but it has in the past fallen woefully short of its goals. In 2014, the program only created 76 jobs and now many businesses are leaving the program. Last year, New York State sold a film hub in Syracuse for one dollar after pouring $15 million into it.[1] A 2015 Citizens Budget Commission report found that only seven percent of sampled REDC projects even reported both projections and results for job creation.[2]

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, 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 Governor Cuomo and his administration.

A 2013 *New York Times* investigation found that in Governor Cuomo's first 20 months, a third of the ESD's 49 hires had ties to governor, including numerous relatives of donors.[3] In 2015, Howard Zemsky became ESD's president and chief executive; Zemsky and his wife have donated a combined $125,000 to Cuomo.

Economic development projects have been at the center of 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.[4] 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 union 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 often went to the governor's campaign donors. Questions have also been raised about "silver-bullet" projects that receive economic development funds without clear criteria. More than a billion dollars was spent on projects such as 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.[5] 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."[6] 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.

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.[7] 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. In an effort 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: Procurement Reform and Database of Deals

Governor Cuomo announced during his budget presentation that he and Comptroller Tom DiNapoli had agreed to restore the comptroller's authority to review contracts before they are executed. The governor inserted into the state operations appropriation bill that funds the comptroller's office a provision allowing the comptroller to pre-audit SUNY and CUNY construction, commodities, computer equipment and printing contracts valued in excess of $250,000. The comptroller can also pre-audit SUNY Research Foundation contracts above $1 million and Office of General Services' contracts above $85,000. The comptroller must complete the pre-audit process within 30 days of submission of the contract. The state operations appropriations bill also provides $500,000 to the Department of Economic Development to create an online Database of Deals for economic development projects. This is a very positive move that FPI has long advocated. Because it is written in the appropriations part of the budget, however, this language would only be in effect for one year. It should be made permanent.

The comptroller's Procurement Integrity Act provides a model for amending state law to integrate the changes agreed to by the governor and comptroller. There are also several sections of this bill that are not part of the announced agreement that are worth enacting, including requiring authorities to follow procurement rules of state agencies, restricting authorities from contracting with nonprofits for procurement, and requiring non-competitive contract opportunities be published in the NYS Contract Reporter before they are awarded. The governor, as part of his address, also said he would require contractors, vendors and grantees with state agencies to certify no collusion or conflicts of interest occurred in state bidding, and to disclose family, financial, and employment relationships with state employees. This proposal does not appear to be in any of the budget bills.

The Fiscal Policy Institute, along with Citizens Budget Commission and Reinvent Albany, 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. Businesses also 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. It's time for New York State to catch up.

A.2334 of 2019 (and previously A.8175-A/S.6613-B of 2018) provides a model for statutory change to create a Database of Deals. The language in the appropriations bill in this year's Executive Budget does 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.

The governor can put statutory language codifying the agreement with Comptroller DiNapoli and the Database of Deals in the Transportation, Economic Development and Environmental Conservation (TED) Article VII bill as part of the 30-day budget amendments. The assembly and senate can also include these proposals in their budget resolutions, as they did last year for the Database of Deals.

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 and 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 (EAP) and provide the capital needed to create these small enterprises (CDFIs).

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. Let us not forget that investing in new busses and subway cars are real upstate economic development initiatives as many of them 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.

[1] Jesse McKinley, "New York Spent $15 Million to Build a Film Hub. It Just Sold for $1," New York Times, June 1, 2018.
[2] Mckinley, Jesse. "New York Spent $15 Million to Build a Film Hub. It Just Sold for $1." The New York Times. June 01, 2018.
[3] Hakim, Danny. "Many Openings at State Agency Go to Those with Ties to Cuomo." The New York Times. April 27, 2013.
[4] Knauss, Tim. "NY Corruption Trial: Feds Say Email Trail Lays out Crime in Syracuse." Syracuse.com. January 22, 2018
[5] 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
[6] 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/.
[7] 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/.