Citizens Budget Commission
Policy Brief

Recommendations for the Next Round of Economic Development Council Awards

October 2012

This year New York will allocate $762 million in economic development funds through the recently created Regional Economic Development Councils. This sum includes $150 million in Council capital grants appropriated in the 2012-13 state budget, $70 million in Excelsior tax credits, $350 million in tax-exempt financing, and $192 million in other state grants.[1] This second round of funding follows what the Governor and legislative leaders lauded as a successful first year of awards. In 2011 the Councils allocated $786 million -- $215 million in capital grants, $62 million in Excelsior tax credits and $509 million committed by other state agencies through a process subject to the Councils' review.[2] Although the Councils have improved the effectiveness of the funding within their purview, they still control only a fraction of total economic development spending and their review process still leaves room for improvement.

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The Citizens Budget Commission is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and City governments.

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New York State and its local governments will spend close to $7 billion this fiscal year in the name of economic development through dozens of programs – an increase of $300 million from 2010. (See Appendix A.) Most of these programs fall outside the jurisdiction of the Councils and lack adequate accountability and transparency. Improving the quality of these billions of dollars in investments is critical because many parts of the State continue to experience less-than-robust job growth and in some places, outright job losses.[3] From 2009 to 2011, six regions of the state added private sector jobs while four regions – Southern Tier, North Country, Mohawk Valley and Central New York – continued to shed jobs. Overall, New York's private sector employment in 2011 was still more than 100,000 below its 2008 peak.

Prior to the first round of Council funding the CBC made four recommendations: 1) consolidate economic development entities; 2) standardize metrics and pay for performance; 3) improve transparency; and 4) maximize the effectiveness of existing funding streams before adding money.[4] The groundwork has been set for progress in each area, although more is required to fully meet these recommendations.

The creation and reliance on Regional Councils are positive steps with potential to make much more effective use of the funds which they allocate. One of the most significant reforms is the Consolidated Funding Application, or CFA. It is a single application with which businesses can apply for funding under numerous programs operated by 10 different agencies including energy efficiency grants from the Energy and Research Development Authority, workforce development grants from the Department of Labor, affordable housing credits from the Department of Homes and Community Renewal, and low-cost power from the Power Authority. The staffs of participating agencies developed a framework for scoring each project application. Each Regional Council also devised a framework for scoring applications based on its strategies and priorities. The agency and council scores were normalized so that 20 points were awarded by the Councils

and 80 points by each agency. These resulting scores were intended to guide funding decisions. This process was used in dispensing the fiscal year 2011-12 funds, and is to be used again for the current fiscal year allocations. The deadline for 2012 applications was July 16, 2012, and awards will be announced this fall. This round of funding presents an opportunity to improve the process by adopting the following four recommendations.

Recommendation #1

Use Standardized and Meaningful Metrics to Evaluate Programs and Make them Public. The public needs and deserves information that provides a basis for judging whether economic development funding actually meets its goals and which investments have the greatest impact. Such information is now provided on an uneven basis among programs, but the Councils offer an opportunity to standardize reporting. Instead of the current piecemeal approach, ESD should facilitate the development and reporting of meaningful and consistent metrics across all Councils and programs.

As part of their initial mandate, the Regional Councils proposed a variety of relevant metrics. Some of these measures were included in the Councils' first-year progress reports, which were submitted September 14, and more measures should be included as projects move forward and more data becomes available. Examples of Councils that proposed well-rounded metrics are Central New York and Mid-Hudson. Central New York's Council proposed "data dashboard" would track the progress of the Council's strategic goals.[5] For each goal, Central New York chose three to eight indicators and presented the current regional statistic, the region's national ranking and a 5-year target. For example, in its first-year progress report, the Council shows 1.2 percent growth in employment since 2011, compared to a 5-year goal of 5 percent growth.[6] The Mid-Hudson Regional Council proposed a comprehensive performance measurement system including nine general economic indicators (for example, regional job growth and poverty rate), goal specific indicators (for example, target industry job and wage growth), and key performance indicators across all goals.[7] One of the nine general economic indicators is a multivariable index compiled by the Center for Regional Economic Outcomes at the State University of New York (SUNY) New Paltz.

In addition, as project funding is disbursed, the Councils should report standardized performance data for each project. ESD could facilitate this by expanding its recently unveiled CFA Project Data website.[8] This platform, which includes a project description, funding amount and source, and a project timeline, allows the public to search for projects and sort information. However, the website does not yet include any performance goals or data. ESD could use the New York State Comptroller's report on Industrial Development Agencies (IDA) as a template for an expanded platform. Through the Comptroller's website, the public can download an

Excel file with project by project data for all IDA beneficiaries.[9] This data includes the number of jobs before receiving benefits, target job creation, target job retention, number of current jobs, target construction jobs, capital investment, average salary for jobs created and jobs retained, minimum and maximum salary, project approval date, planned completion year, project and applicant addresses, and a short project description. ESD could improve upon this data reporting system by requiring a breakdown of job creation and investment figures by year. This would allow the public to align the project's annual benefits with its annual public costs. The North Country Regional Council provides another template. For first-year priority projects, the Council released project-specific data in a downloadable spreadsheet that includes total project investment, Council funding, and projected and actual short- and long-term job creation.[10]

Other states have also developed, or are in the process of developing, performance measures for economic development programs. Since 2005, Illinois has made job and wage data available for all businesses that receive assistance.[11] Illinois' Corporate Accountability portal allows the public to search by year or by program and view reports for each project. A project representative must certify the data in the report is factual, and if the number of jobs falls short of the initial agreement, the company must provide an explanation. In 2009 Minnesota mandated an annual uniform accountability report for all economic and workforce development programs.[12] For each program, these reports provide information on the program's purpose and resources, the population served, the services or assistance provided, and the program's results. Minnesota is still developing performance measures for each program but is considering reporting on productivity improvement, increases in business revenue, tax-base generation, and leveraged capital investment, in addition to job and wage data.

ESD should choose approximately 10 regional indicators and 10 project indicators that all Regional Councils must report, while allowing the Councils to report additional performance measures that speak to specific Council strategies or goals. By establishing a core set of uniform indicators, ESD can provide the public information with which to compare the impact of each Council's investments. Due to current lack of uniformity, performance measures in the Council's first-year progress reports cannot be directly compared, even though many of the reports contain good data. Sharing performance data that is standard within and across regions would also help strengthen the public's willingness to make further investments in sectors or types of projects that prove most successful.

Recommendation #2

End Ineffective Programs. Hundreds of local and state governmental entities play a role in economic development in New York, from county offices to village Industrial Development Agencies to the state's Power Authority. New York also continues to create new programs, such as the new Excelsior program, which will cost $100 million in tax year 2012.[13] Additional programs are proposed continuously, often without a clear understanding of the cost. In the last budget cycle the State created a new power subsidy program for Western New York and significantly expanded opportunities for tax increment financing for new developments.[14] The film tax credit was also recently expanded.[15]

Challenging budget conditions in the past few years have forced many states to reexamine the efficacy of their economic development programs and end programs found to be lacking. For example, in 2010 the Connecticut Department of Economic and Community Development compared returns on economic development investments to the return on various other government programs to account for the "opportunity" costs of investing in economic development.[16] The review back to 1995 found that some programs were effective while others were not and recommended eliminating or retooling the most ineffective programs. Other states have empowered a separate panel to conduct an evaluation and make recommendations to elected officials about how to correct program failings. For example, in Washington State staff from a Joint Legislative Audit and Review Committee conduct an evaluation of every tax expenditure program at least once a decade, and a Citizen Commission, made up of gubernatorial and legislative appointees, reviews the evaluation and holds public hearings.[17] In 2009 Oregon reset the sunset dates for all tax incentive programs so that all programs expire in 2012, 2014 or 2016.[18] Before the first group of 20 incentives was set to expire, a legislative committee determined that the cost of extending all 20 incentives would have been $40 million in the next year. The committee decided to limit the revenue loss to $10 million, forcing the elimination or scaling back of the most ineffective programs.

Along these lines, New York included a cap on Excelsior tax credits; annual allocations cannot exceed $50 million for five years and businesses can receive credits for only 10 years.[19] Consequently, within five years the annual cost of the program may reach $250 million, but that will be well below the cost of the expired Empire Zone program at its peak. This design feature will keep cost growth in control, as well as force administrators to evaluate carefully each applicant and prioritize funding. New York's leaders should also consider using the cap mechanism more widely to foster a more disciplined approach.

Recommendation #3

Improve the Consistency of Project Scoring. The development of application scoring metrics by the Regional Councils and by state agency staff introduced a transparent and quantitative approach to allocating money where none previously existed. However, the scoring criteria and standards for each Council and each agency were different. Most Councils and agencies included the same basic categories, but each defined them slightly differently. Many Councils and agencies added additional criteria which related to their specific priorities, and each Council and agency used different weighting systems for the scores. For example, the Southern Tier Council assigned up to 1 point for vision, 2 points for process, 7 points for strategies, 3 points for implementation, 3 points for leveraging resources, and 4 points for performance measures for a maximum of 20 points.[20] The Long Island Council assigned up to 60 points and included similar categories as the Southern Tier, but also added points for workforce development, long-term financial sustainability, impact on small businesses, and other components.[21]

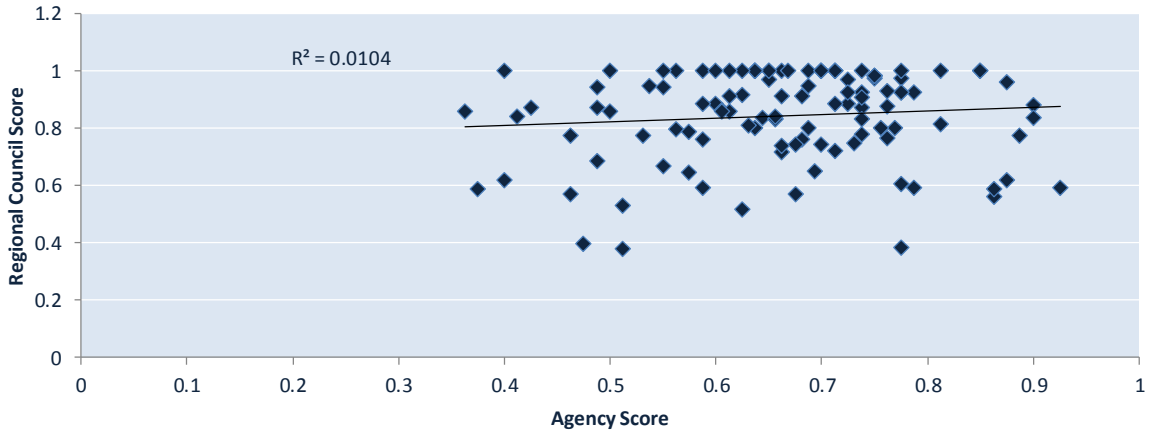
The agencies' scoring methods were even more varied. The Office of Parks, Recreation and Historic Preservation based its scoring for the Environmental Protection Fund Municipal Grant Program on a possible 100 points – 5 for poverty level, 25 for impact, 10 for planning process, 20 for reasonableness of cost, 10 for the department's priorities, 20 for the Regional Council's assessment, and 10 for a statewide assessment.[22] In contrast, the scoring rubric for the Department of State's Local Waterfront Revitalization Program includes 4 points for vision, 8 points for process, 28 points for strategies, 12 points for implementation, 12 points for leveraging, 16 points for performance measures, and 20 points for evaluation of budget and cost.[23]

In some cases, differing agency criteria reflect federal guidelines or divergent program purposes, such as energy efficiency or affordable housing. Nonetheless, these differences undermine the usefulness of this important new tool. To the extent possible, ESD should facilitate the convergence and standardization of the multiple criteria and scoring methods, making them more useful for decision making.

The allocation of the $215 million in ESD capital grants in 2011 by the Councils highlights the need for a standardized process.[24] No consistent relationship exists between agency scores and Council scores for the projects awarded grants. (See Figure 1.) Many projects highly rated by agencies were not scored highly by Council members. In addition the Western New York Regional Council severely limited the usefulness of its scores by giving perfect scores (20 out of 20) to all but one of its priority projects; consequently, only 2 projects out of the 18 projects awarded ESD capital grants in Western New York received a council score below 100 percent.

One of those projects, the Rubberform Recycled Products, LLC expansion, received a 38 percent (7.67 out of 20) from the Council but got a 78 percent (62 out of 80) from ESD and was awarded $250,000.[25]

Figure 1: Relationship Between Agency Score and Regional Council Score for Empire State Development Grants



Source: New York State Empire State Development, *2011 CFA Project Data.* Available from http://www.nyscfaprojectdata.ny.gov/regional-documents.

In some cases it is impossible to discern why certain projects were funded over others with similar or higher scores. For example, the Tryon Technology Park and Incubator Center in the Mohawk Valley region was given a $2 million capital grant, yet received only a 48 percent score from ESD (38 out of 80) and a 40 percent score from the Council (7.96 out of 20).[26] In the same region, the City of Johnstown obtained high scores (77.5 percent from ESD and 96.8 percent from the Council) for its application for the Greek yogurt company Fage but was not awarded any money.[27] Yet the same project received a $750,000 community development block grant from the Department of Homes and Community Renewal.[28] These projects may have been awarded funding according to different program criteria that fall outside the discretion of ESD and/or the Councils, but the rationale should at least be noted.

The second round of grants should be based on an improved scoring method. ESD should begin to adopt some standard criteria for each agency and the Councils for use across programs. Discretionary criteria that reflect substantive differences in agencies' or Council goals should be continued when necessary. If agencies find that even a small number of standard criteria cannot be applied to their programs, then ESD should reconsider whether or not the program serves an economic development purpose and belongs in the Regional Council framework. Without common criteria and standard scoring, the validity of the CFA for determining the best use of funds across the state and within particular regions is limited.

Recommendation #4

Expand the Consolidated Funding Application to Develop a Unified Economic Development Budget. If the CFA process incorporates the improved criteria and scoring methods recommended above, it should be expanded to include eventually the full range of economic development programs. In the last round of Regional Council awards, 10 agencies participated in the CFA and provided $786 million for council initiatives.[29] The number of participating agencies increased this year as three agencies joined and one dropped out.[30] Even with the expansion, however, the vast majority of economic development funds are allocated outside the CFA process. The CFA should be expanded and should serve as the platform for a unified economic development budget, or UEDB.

The UEDB accounts for all economic development expenditures – tax breaks, direct spending, and other subsidies and support, both state and local. Most states with UEDBs, including Texas and Vermont, aggregate funding under each public program. This is useful but does not reveal when individual firms receive funds or benefits from multiple programs. New York's Regional Councils should go a step further by aggregating public funding at the project or business level. For example, the Finger Lakes Cultural and Natural History Museum project received a $381,000 grant from the Environmental Facilities Corporation, a $1.5 million grant from ESD, and $400,000 from the Office of Parks, Recreation and Historic Preservation.[31] The format of the UEDB should enable the public to add up all funding streams for specific projects.

The best way to make this information available is through a web-based portal or a downloadable spreadsheet. For example, the Missouri Accountability Portal (MAP) allows the public to view Missouri tax incentive data by recipient or by program.[32] The information is available on an interactive website or on a text file and covers $4.5 billion in tax incentives approved since 2000 through several dozen programs.

In addition, the UEDB should include the costs of programs that are not otherwise readily apparent. For example, the Regional Councils' first year assessment reports included allocations for Recharge New York, a discounted energy program, but the allocations are expressed in electrical capacity, i.e. kilowatts, not dollars.[33] The public cannot easily discern the actual cost. The program is an improved version of Power for Jobs, which cost the Power Authority about $40 million annually in rebates and which reduced state business tax collections by $9 million annually.[34] The Councils also allocated tax-exempt industrial development bonds (IDB). The initial awards included $40 million in IDBs for North Country, $25 million for Long Island, $10 million for Southern Tier, $7 million for Central New York and $1 million for the Mohawk Valley.[35] The cost is lost state and local income tax on these tax-exempt bonds. It is difficult to estimate lost revenue precisely, but the New York City Economic Development Corporation has

developed a method for estimating lost City revenue from Industrial Development Agency tax-exempt bonds that could be replicated statewide in a UEDB.[36]

The State's recent efforts to tame the hydra of economic development programs have the potential to make New York more effective at drawing businesses and jobs. There is still work to be done, however, if New York is to use its $7 billion commitment more effectively. The State should draw from best practices in the regions to improve and standardize performance information. The CFA should serve as the platform for a UEDB, and all relevant information should be made public in a user-friendly way. If these next steps are taken, then New York will be well on its way to making every dollar invested in economic development count.

Appendix

In 2010 the CBC determined that New York entities cumulatively spent $6.6 billion on economic development; two years later the tally is now $6.9 billion.[37] This more recent tally includes $3.8 billion in tax incentives - $2.6 billion that reduce state taxes and $1.2 billion that lower local taxes.[38] (See Table A.) New York's primary entity involved in statewide economic development – Empire State Development – spent $1 billion in state fiscal year 2012, primarily on discretionary capital grants.[39] At the local level, New York City's Economic Development Corporation spent $781 million in city fiscal year 2011, while other local governments collectively spent $517 million.[40] The New York Power Authority allocated at least $479 million in discounted energy, while other state authorities and agencies spent another $261 million.[41]

Much of the growth in the past few years is from existing state and local tax programs, including the state film tax credit, which grew from $130 million in 2010 to $359 million in 2012, and New York City's Industrial and Commercial Incentive Program and Industrial and Commercial Abatement Program, which grew from $500 million in 2009 to $684 million in 2012. Growth was offset by the expired Empire Zone program, which shrank by $154 million, and by a $124 million contraction in brownfield tax credits.

Table 1: Summary of Annual New York State and Local Government Economic Development Costs

(Dollars in Millions)

State Tax Breaks	2010	2012	Annual Growth
Excelsior	0	100	NAP
Brownfields Tax Credits	624	500	-10%
Sales Tax Benefits for Production and R&D	602	654	4%
Empire Zone Credits	554	400	-15%
Exemptions For Commercial Airline Carriers	155	186	10%
Empire State Film & Commercial Production	130	359	66%
Investment Tax Credits	96	144	22%
Other	297	278	-3%
Subtotal State Tax Breaks	**$2,458**	**$2,621**	**3%**
State Spending	**2010**	**2012**	**Annual Growth**
Empire State Development	982	1,093	5%
NYSERDA Econ Development Programs	144	84	-24%
State Agency Spending	123	126	1%
Other State Capital	27	21	-11%
Other Public Authorities*	67	30	-56%
New York Power Authority**	479	479	NAP
Subtotal State Spending	**$1,822**	**$1,833**	**NAP**
Local Tax Breaks	**2009**	**2012**	**Annual Growth**
New York City Tax Breaks	511	698	11%
Industrial Development Agency Tax Breaks***	496	483	-3%
Subtotal Local Tax Breaks	**$1,007**	**$1,181**	**NAP**
Local Spending	**2009**	**2011**	**Annual Growth**
New York City Economic Development Corporation	771	781	1%
Other Local Government Spending***	496	517	4%
Subtotal Local Spending	**$1,266**	**$1,298**	**NAP**
TOTAL	**$6,553**	**$6,933**	**NAP**

* Data from 2010 to 2011

** Data from 2007

*** Data from 2009 to 2010

Sources: See endnotes.

Endnotes

[1] Includes $25 million in funding for high-speed internet access projects announced on August 21, 2012. New York State Empire State Development, *2012 Consolidated Funding Application Resources.* Available from http://regionalcouncils.ny.gov/assets/documents/2012-Available-CFA-Resources.pdf. "Governor Cuomo Hosts Regional Economic Development Councils to Discuss Progress on Job Creating Plans," Press Release, August 21, 2012. Available from http://www.governor.ny.gov/press/08212012REDC.

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[6] Central New York Regional Economic Development Council, *2012 Progress Report,* p. 45. Available from http://regionalcouncils.ny.gov/themes/nyopenrc/rc-files/centralny/centralny_2012progressreport.pdf.

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[8] See http://www.nyscfaprojectdata.ny.gov/cfadatatable.

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York State Legislation, A9057D/S6258E of 2011, Part U. Available from http://assembly.state.ny.us/leg/?default_fld=&bn=A09057&term=2011&Summary=Y&Text=Y.

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[27] *Ibid,* p. 4.

[28] *Ibid,* p. 12.

[29] New York State Empire State Development, *2011 Strategic Plan and Regional Project Awards.* Available from http://www.governor.ny.gov/assets/documents/CFAAWARDSBooklet.pdf.

[30] The new agencies are the Department of Agriculture and Markets, the Department of Environmental Conservation and the Council on the Arts. The Department of Transportation participated in 2011 but is not participating in 2012. New York State Empire State Development, *2012 Consolidated Funding Application Resources.* Available from http://regionalcouncils.ny.gov/assets/documents/2012-Available-CFA-Resources.pdf.

[31] Regional Economic Development Council of the Finger Lakes, *2011 CFA Project Scores,* July 3, 2012, pp. 10, 12, and 39. Available from http://www.nyscfaprojectdata.ny.gov/assets/files/CFA/FingerLakes_CFA_7-3-12.pdf.

[32] See http://mapyourtaxes.mo.gov/MAP/Portal/.

[33] New York State Empire State Development, *2011 CFA Project Data.* Available from http://www.nyscfaprojectdata.ny.gov/regional-documents.

[34] From 2005 to 2011, the New York Power Authority issued $280 million in rebates under the Power for Jobs program. New York Power Authority, *2011 Financial Report,* p. 64. Available from https://www.nypa.gov/about/documents/Financials2011.pdf. The New York State Department of Taxation and Finance estimates that Power for Jobs corporation and utilities tax credit will cost $9 million in tax year 2012. New York State Division of Budget and the New York State Department of Taxation and Finance, *Annual Report on New York State Tax Expenditures, 2012-13 State Fiscal Year,* p. 128. Available from http://publications.budget.ny.gov/eBudget1213/fy1213ter/TaxExpenditure2012-13.pdf.

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[38] State tax expenditure figures are for tax year 2012 and are from New York State Division of Budget, *Annual Report on New York State Tax Expenditures, 2012-13*. Available from http://www.budget.ny.gov/pubs/executive/eBudget1213/fy1213ter/TaxExpenditure2012-13.pdf. Local tax expenditures include Industrial Development Agency tax breaks and the New York City Industrial and Commercial Incentive Program, Industrial and Commercial Abatement Program, Commercial Expansion Program and Commercial Revitalization Program. Office of the New York State Comptroller, Division of Local Government and School Accountability, *Financial Data for Local Governments: Industrial Development Agencies, Fiscal Year 2010*. Available from http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm. New York City Department of

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