

**AVOIDING PAST MISTAKES:
PRINCIPLES FOR GOVERNING REGIONAL ECONOMIC DEVELOPMENT
COUNCILS**

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FOREWORD

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments. A major activity of the Commission is conducting research on the financial and management practices of the State and the City.

All research by the CBC is overseen by a committee of its trustees. This report was completed under the auspices of the Economic Development Committee. We serve as co-chairs of that Committee. The other members of the Committee are Charles Bendit, Les Bluestone, Kenneth W. Bond, Lawrence B. Bittenwieser, Vishaan Chakrabarti, Charles Freeman, Bud H. Gibbs, Barry Gosin, Martin Grant, H. Dale Hemmerdinger, Peter A. Joseph, Harold Levy, James L. Lipscomb, Robinson Markel, Frances Milberg, Joyce Miller, James S. Normile, Laura Ross, Suzanne Shank, Alair A. Townsend, and W. James Tozer.

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INTRODUCTION

The image of New York with a new sign rising from its soil - “Open for Business” - has captured the public’s imagination since Governor Andrew Cuomo first used that graphic in the slides that accompanied his State of the State address in January 2011. In keeping with the Governor’s focus on job creation the fiscal year 2011-12 budget included initiatives to reshape the State’s economic development agenda including \$130 million in capital funds and an expansion of the Excelsior tax credit program created the previous year. Now, the Governor has declared the second six months of his first year in office the *NYWorks* phase, releasing *Open for Business*, a guidebook for the operation of ten newly created Regional Councils that will coordinate economic development activities and compete for new grants.¹

Opening New York for business will be a challenge. From 1980 to 2000 the job creation rate in the U.S. was nearly 2.5 times New York’s; employment grew by 45.6 percent nationally and in New York by 19.1 percent.² In the most recent decade—2000 to 2010—the trends have deteriorated even further. The U.S. shed 1,967,000 jobs, or 1.5 percent of total employment, and New York shed 131,988 jobs, or 1.6 percent of its total.³ Almost all of the net job loss was experienced in upstate, which lost 131,346 jobs or 4.6 percent of total employment.⁴

The current array of state economic development programs have not succeeded in spurring job growth. Their organizational structure is like the hydra from Greek mythology – a multi-headed monster that grows a new head each time one is cut off.⁵ The cost to the State of all of these programs is an estimated \$6.6 billion in annual lost tax revenues, power subsidies, and direct spending. This is a tremendous expenditure; by way of comparison, it is as much as the local share of Medicaid costs of all the counties combined.

The new Regional Councils have the potential to improve meaningfully outcomes by streamlining and coordinating all of these efforts, but the danger is that they will instead become new heads on the already huge and unwieldy economic development hydra in New York State. According to *Open for Business* the new councils will be advisory bodies, with final authority over grants and other economic development expenditures continuing to be disbursed among Empire State Development and numerous other agencies. The councils’ primary responsibility is to prepare strategic plans for their regions, including metrics for determining whether their objectives are being met, and to report regularly to the public. The strategic plans, to be submitted by November of this year, will be evaluated competitively and the four best will be awarded \$40 million each with another \$40 million to be divided among the remaining six regions. The competitively awarded \$200 million in grants are part of a larger \$1 billion in resources available through the programs of different agencies and public authorities that the councils will help allocate.

THE MISTAKES OF THE PAST

There is reason to be hopeful and enthusiastic about the new Regional Councils. But there is also cause for concern that the pitfalls that have plagued the State's poor management of economic development programs will prove too difficult to avoid.

Regional Councils have been tried before. In 1985 the Empire State Development Corporation (now known as ESD) began the Regional Economic Development Partnership Program (REDPP), which continued until 1997. Over those years the REDPP received \$75.2 million in appropriations.⁶ The funds flowed through ten Regional Councils appointed by the Governor and local government officials for two primary purposes: 1) infrastructure grants leading to significant job creation or retention, and 2) training projects to assist dislocated workers. Another \$20 million in loans made through REDPP were eventually repaid. Regional Councils were tasked with preparing strategic plans for each region, reviewing project applications for consistency with the regional plan, and prioritizing applications for award. ESD made the final determination about project awards and monitored compliance with program regulations and the terms of project contracts.⁷

At the program's conclusion the State Comptroller did an audit of the program that addressed two questions: 1) Did ESD define measurable goals for REDPP-funded programs? 2) When projects did have goals, did ESD monitor compliance to determine whether they were met? Unfortunately, the answer to both questions was negative. The audit sample of infrastructure grants showed that "ESD does not periodically assess the job creation/retention effort in connection with REDPP projects," and that "by not requiring all award recipients to report employment data, ESD could not fully assess the effectiveness of REDPP."⁸ Furthermore, ESD did not attempt to verify the accuracy of businesses' claims regarding employment; auditors found discrepancies between the businesses' claims and data in their payroll systems.

Similar concerns over inadequate monitoring and measurement of goals were noted for the training programs funded by REDPP. None of the agencies sampled in the audit had completed the original project plan, and none had notified EDC or requested that some aspects of the plan be changed.⁹ EDC failed to monitor the progress of the recipients in reaching agreed-upon goals and paid for more training than the companies were providing.¹⁰ The audit also noted that grant agreements did not include clauses allowing for funds to be reduced or recouped where training goals were not met.

In the 1996-97 budget the funding for the REDPP was reduced to \$2.5 million. Brian McMahon, Executive Director of the New York State Economic Development Council, characterizes the demise of the Regional Councils as follows: "With few resources and little focus, they faded in influence and were discontinued..."¹¹

In summary, the Regional Councils of the past had limited authority, set few measurable goals, and operated with little accountability. To avoid these shortcomings and their ultimate fate, the

role of the new Regional Councils should be strengthened and the number of separate entities with authority over economic development spending permanently reduced to make the investment of scarce resources more productive.

Four principles should govern the design and operation of the Regional Councils to ensure that they are effective in spurring job growth.

1. Tame the Hydra

New York's state and local governments invest approximately \$6.6 billion per year in tax breaks and direct expenditures to spur economic development. (See Table 1.) Literally hundreds of entities are involved in economic development activities at the state and local level, each with its own application process. More than a dozen separate state tax credit programs reduce state tax receipts by \$2.5 billion a year. Seven state public authorities and six state agencies spend \$1.8 billion annually, mostly in the form of capital investments in redevelopment projects large and small as well as the debt service owed for past projects.¹² At the local level, municipalities invest about \$1.3 billion annually and more than 100 Industrial Development Agencies (IDAs) and the City of New York expend about \$1.0 billion in tax breaks each year. Local development corporations – private, not-for-profits created by or for the benefit of local governments – are also involved in economic development, although very limited information is available about their activities at this time.¹³

Into this disparate array of entities and programs will now come ten new Regional Councils charged with rationalizing investments and tailoring them to meet the needs of each economic region. Although the councils will coordinate access to \$1 billion in resources identified by *Open for Business* through an application process that consolidates the separate applications now managed by the participating agencies into one, most of expenditures identified in Table 1 will continue to be made outside council purview. In the past, the lack of coordination has led to a “race to the bottom” in which competing regions and programs shift jobs from one area of the state to another. To be fully effective, the councils should have responsibility and authority over all state economic development resources, not just a subset of selected programs. The consolidated application process is a potentially powerful tool that can be extended to all economic development programs.

**Table 1: Summary of Annual New York State and Local Government
Economic Development Costs***
(Dollars in Millions)

State Government	\$4,280
State Tax Credits and Exemptions	2,458
Public Authority and Agency Spending	1,795
Other Capital Spending**	27
Local Government	\$2,273
Local Agency Spending***	1,266
Local Tax Credits and Exemptions	1,007
Total State and Local Economic Development Costs	\$6,553

*State data are from fiscal year 2009-2010, unless otherwise noted in the sources. Local data from 2009.

**Includes \$18.3 million in spending for the Economic Development Capital Program and \$8.8 million for the Strategic Investment Program.

***Does not include amounts spent by local development corporations, many of which are engaged in economic development. Available data from the Office of the State Comptroller on these entities permits limited analysis and suggests an additional \$1 billion in spending, including \$446 million for the Hudson Yards Development Corporation.

Sources: State tax expenditure figures are from New York State Division of Budget, *Annual Report on New York State Tax Expenditures, 2010-11*. State agency spending figures are from New York State Division of Budget, *Fiscal Year 2010-11 Enacted Budget*. Public authority spending figures are from: 1) New York State Urban Development Corporation, *Consolidated Financial Statements and Independent Auditors' Report*, March 31, 2010 and 2009. Accessed April 2, 2011, from <http://www.esd.ny.gov/CorporateInformation/Data/FinancialDocuments/UDCFinancialStatement2010.pdf>; New York Job Development Authority, *Consolidated Financial Statements and Independent Auditors' Report*, March 31, 2010 and 2009. Accessed April 2, 2011, from <http://www.esd.ny.gov/CorporateInformation/Data/FinancialDocuments/JDAfinancialStatement2010.pdf>; 2) New York State Energy Research and Development Authority, *2009-2010 Annual Report: New York's Clean Energy Economy*. Accessed May 3rd, 2011, from http://www.nyserda.org/publications/2010_annual_report.pdf; 3) New York State Foundation For Science, Technology and Innovation, *Basic Financial Statements*, March 31, 2010 (With Independent Auditors' Report Therein). Accessed May 5, 2011, from <http://www.nystar.state.ny.us/board/assets/10audit.pdf>; 4) New York State Agriculture and Horse Breeding Fund, *2010 Financial Statements*; and 5) Olympic Regional Development Authority, *2009-2010 Annual Report*. The estimated cost of the programs operated by the New York Power Authority for 2007 are from Citizens Budget Commission, *Overhauling the NYPA's Economic Development Programs*, September 2009. State capital and debt service figures from New York State Division of Budget, *Fiscal Year 2010-2011 Enacted Budget Capital Program and Financing Plan*. Local agency spending figures from Office of the New York State Comptroller, Division of Local Government and School Accountability, *Financial Data for Local Governments: Industrial Development Agencies, Fiscal Year 2009*. Local tax credits and exemption figures from Office of the New York State Comptroller, Division of Local Government and School Accountability, *Financial Data for Local Governments: Counties, Fiscal Year 2009*, New York City Department of Finance, Office of Tax Policy, *Annual Report on Tax Expenditures, Fiscal Year 2009*, February 2009 and the New York State Authority Budget Office, Public Authority Reporting Information System.

Consolidate Industrial Development Authorities

The example of local Industrial Development Agencies (IDAs) is illustrative of a structure that leads to a “race to the bottom” in which jobs are shifted from one area of the State to another. In 1969, New York State authorized all New York counties, cities, villages and towns to create IDAs. As of 2009, 115 IDAs were active, including 56 county IDAs, 26 city IDAs (including one in New York City), 27 town IDAs, 5 village IDAs and 1 city-town IDA.¹⁴ Each IDA is a public benefit corporation, providing services for the public good without the oversight and restrictions that apply to government agencies. IDAs have the authority to buy, sell and lease property; borrow money and issue tax-exempt bonds for projects; provide tax exemptions; and collect payments in lieu of taxes (PILOTs). The IDAs have proliferated and in some regions there are more than a dozen. (See Table 2.)

Table 2: Industrial Development Agencies' Tax Exemptions by Region, Fiscal Year 2009
(Dollars in Millions)

Region	Number of IDAs*	Gross Tax Exemptions	Tax Exemptions Net of PILOTs
New York City	1	\$490	\$144
Capital	23	103	64
Central	6	86	33
Finger Lakes	10	62	38
Hudson Valley	19	125	58
Long Island	8	129	59
Mohawk Valley	8	23	10
North Country	8	11	3
Southern Tier	10	58	39
Western New York	14	103	48
Total	107	\$1,189	\$496

*Does not include 3 IDAs that did not report in time to be included in State Comptroller annual report and 5 IDAs with no active projects.

Source: Office of the New York State Comptroller, Division of Local Government and School Accountability, *Financial Data for Local Governments: Industrial Development Agencies, Fiscal Year 2009*.

Within a region, incentives should be offered in way that maximizes the tax base of the whole region. In the past, one locality within a region might outbid another with a more lucrative package for the firm but to the detriment of local tax coffers. In regions with multiple competing IDAs such coordination may prove difficult. *Open for Business* makes no reference to any role for the Regional Councils vis-à-vis the activities of IDAs, but a solution may be to consolidate them into one per region and place them within the Regional Councils’ purview.

Integrate Power Subsidies and “Green Jobs” programs

It is important to note that the second largest public authority involved in economic development after ESD is the New York Power Authority, or NYPA.¹⁵ NYPA is authorized to further economic development in the State by offering discounted power, and it operates eight economic development programs. NYPA allocates power benefits through an Economic Development Power Award Allocation Board. At present, the dollar value of NYPA’s power awards is not disclosed, making cost-benefit analysis very difficult. In a CBC report, *Overhauling the NYPA’s Economic Development Programs*, the eight programs were estimated to cost between \$479 million and \$640 million in 2007 in foregone receipts. Under the new Recharge

New York program an additional 300 megawatts of economic development power will become available. The councils should be authorized to allocate power awards in concert with other types of grants.

Discounted power can be an important economic development tool in New York where energy prices are among the highest in the nation. Although in recent years ESD and NYPA have worked more collaboratively to award power grants strategically, these power awards should be fully valued and integrated in any strategic plan going forward. The Power Allocation Board should not be allowed to act in isolation or in a counter-productive fashion relative to the goals of the Regional Councils.

Likewise, the activities of the third largest public authority involved in economic development, the New York State Energy Research and Development Authority (NYSERDA), should be integrated into the Regional Councils' economic development plans.¹⁶ NYSEDA is the State's lead authority on energy issues and is primarily funded through a Systems Benefit Charge on electricity rate payers and from the State's participation in the Regional Greenhouse Gas Initiative. NYSEDA's expertise is important but, like all the other agencies that administer economic development programs, it should award such grants as part of a coordinated approach that is guided and governed by the priorities and direction of the Regional Councils.

2. Standardize Performance Metrics for All Programs and Pay Only for Results

A positive aspect of *Open for Business* is its emphasis on performance management. Many other states are decades into comprehensive performance management and reporting for economic development. Florida, Texas, Illinois, Iowa, Minnesota, Oregon, and Virginia, for example, are developing second and third generation performance management tools. New York is well behind its peers in these efforts, and the new requirements for the Regional Councils should lead the way to the statewide adoption of the better practices found in other states.

Establish Metrics for Performance

One key problem with the State's past economic development programs is that their impact has not been measured, in part because their goals and objectives have not always been clear. Improving accountability and using metrics to benchmark program performance is a theme of *Open for Business*.

As ESD helps the new councils draw up their metrics it should make sure that consistent performance measures and standard benchmarks, such as actual results and results against planned performance, are used in every regional plan. In addition, input and output data—jobs, wages, property development—should be standardized across all programs. Performance should be gauged only by new activity created in addition to baseline payroll and/or property value. Job creation and retention calculations that vary by region and/or program cannot be

used to draw valid conclusions about the successes and failures of economic development efforts.

Standard methods for measuring progress should be employed, and these should include not only the traditional output measures (e.g., jobs) but also outcome measures that reflect the economic health and growth in the regions. Some of these are described in the “Business Climate” metrics in *Open for Business* including: job and firm growth, taxes and fees, regulatory burden, workforce characteristics and demographics, infrastructure and utility quality, business reputation, and innovation and entrepreneurship indicators.¹⁷ Wage growth, personal income, poverty levels, property wealth, and other indicators of community health should also be included.

Pay Only for Results

Although the emphasis on measurement in *Open for Business* is a welcome improvement, one important element should be added to the performance management design—pay for performance. Benefits should be paid retroactively based on firm performance. For example, in the recently adopted Excelsior program a one-year lag was implemented so that firms will be credited only for jobs created and failure to create jobs will result in a one-year suspension of benefits. This approach should be standardized among economic development programs. “Clawback” provisions, in which firms agree to give back subsidies if they fail to meet agreed-upon goals, are not enough to ensure success. Attempting to recoup investments from firms once they have been conferred is cumbersome, time consuming, and very difficult to achieve.¹⁸

Although the competition for \$200 million in new grants among regions as described in *Open for Business* may be helpful in motivating each council and sparking creativity, it may also produce inefficiencies. Awards based solely on the strength of a strategic plan cannot help but be speculative and some regions may receive too much and others too little. After the initial round of competition economic development incentives should not be awarded by regional formula but only on the specific merits of each deal.¹⁹

3. Improve Transparency with More Comprehensive Disclosure Requirements and a Unified Economic Development Budget

New York’s less than robust disclosure efforts are in part a function of the number of entities involved in the economic development enterprise. The situation is not likely to improve if the Regional Councils are allowed to make their own choices about what to tell the public. Transparency is likely to improve under the guidelines provided in *Open for Business* because the strategic plans and the progress reports will be posted online. However, more comprehensive disclosure requirements and reporting would provide some guard against the politicized nature of some of the deals of the past and help ensure that investments are being chosen on the merits.

Public Disclosure

Good government requires sunlight, and in economic development, where opacity has been particularly pronounced, major improvements are needed. Much of New York State's economic development dealings remain in the dark. Although some additional disclosure was required in the Public Authorities Accountability Acts of 2005 and 2009, none of the entities involved in economic development in New York State report much about the results of the programs they run.

Show Us the Subsidies: An Evaluation of State Government Online Disclosure, the most recent effort of Good Jobs First released in 2010, identified four states (Missouri, North Carolina, Ohio, and Wisconsin) that provided the most comprehensive reporting. Illinois, Indiana, Michigan, Pennsylvania, Rhode Island, Utah and Vermont had full disclosure available for all subsidy programs but one. The top ranked state on the state-by-state scoring system was Illinois, which garnered a score of 82 and a "B" grade.²⁰ New York scored a 24 and was given a "D". As ESD and the Regional Councils enhance transparency the models developed in Missouri, North Carolina, Ohio and Wisconsin should be used as a template. In those states data is reported for every key program for every recipient. Deal specific disclosure—not covered in *Open for Business*—is important in combating corruption and allowing for the examination of the costs and benefits of providing incentives for various firms.

Unified State Economic Development Budget

The all-in costs and benefits for every deal should be analyzed and disclosed. Since firms may benefit from more than one program a unified approach is important. The ultimate goal should be the creation of a Unified Economic Development Budget. This budget should include tax expenditures, direct subsidies—including the value of discounted power—and the benefits conferred by any local entities, including local development corporations.²¹ Unified budgets should also be shown by region. A tally of the \$1 billion in funds that may be utilized through the Regional Councils will not provide enough information. More robust cost benefit analysis is needed to determine the merits of every investment.

To date a few states—Texas, Illinois, and Vermont—have developed and begun to use innovative Unified Economic Development Budgets.²² New York should follow the lead of these states. Part of the appeal of the concept is that it helps ensure that tax breaks get as much scrutiny as appropriations. Because tax spending is often poorly accounted for, legislators often continue to approve it while cutting direct spending to other programs.²³

In addition, the amounts in the unified budget should be compatible with state budget documents. The state budget currently shows the funds that the State passes on to ESD and the other public authorities in the form of capital, operating, or grants to be sent to local governments. These funds are then combined into the accounts of public authorities that may receive monies from multiple sources, including user and project fees, and grants. This makes

pinpointing the actual sums spent on many functions difficult. In ESD, for example, no distinction is made between capital and operating funds. The unified budget should be prepared in a way that improves the transparency of spending in public authorities. Allocated amounts compared to actual spending should also be reflected.

4. No Additional Funding

To fund the initial commitment of \$200 million, \$130 million in capital funds were “reprogrammed” from funds that had been budgeted but not yet spent and \$70 million in Excelsior tax credits were committed. The Excelsior tax credits will be paid retroactively according to performance, but the \$130 million in capital funds may be wasted if the investments supported by the councils do not pay off. The criteria for use of those funds are broad,²⁴ and no funds should be added to the program in year two. Funds for the expansion of regional council investments should be generated by reducing or eliminating current programs that are deemed unsuccessful after a thorough review.

New York has a track record of simply grafting new programs and funds onto existing ones. A notorious example is the Empire Zone program. Although seriously flawed from the start, it continued for many years (and will continue for firms that entered the program as recently as last year). A CBC review of the program in 2008 found that fully 58 percent of participating firms were failing to meet their program goals by a margin of 60 percent or more.²⁵ Despite repeated audits and unfavorable reviews, the program was expanded and modified 19 times over a 15-year period. In 2010 the Empire Zone program cost the State \$554 million in lost tax receipts,²⁶ and in 2007, the last year for which there is available data, businesses reported that they were carrying forward \$1.0 billion in credits yet to claim.²⁷

In the Centers for Excellence (CoE) program—established in 2001 with the goal of leveraging the intellectual capacity of the state universities for economic development—high tech centers were situated around the state to draw in private and public investment and create jobs. Seven centers were established in several rounds of legislation enacted over a three-year period—Nanotechnology (Albany); Bioinformatics and Life Sciences (Buffalo); Photonics and Optoelectronic (Rochester); Wireless and Information Technology (Stony Brook); Environmental and Energy Systems (Syracuse), Small Scale and Systems (Binghamton) and Bioscience (New York City). A 2006 review by the consulting firm Public Financial Management showed that only one of the seven had sparked or leveraged significant private investment—the Nanotech center at SUNY Albany.²⁸ Indeed the Photonics and Optoelectronic center outside Rochester ran in the red for nearly a decade before being retooled. Last year, under new leadership, its financial statements showed it to be nearing the break-even point, and it was merged with the Albany Nanotech Center.²⁹ New York City decided not to move forward with a bioscience center after failing to find a university partner to house it. Even in Syracuse, with an identified cluster of environmental innovation firms in the surrounding area, the CoE failed to make critical connections with the private sector. From 1997 to 2006, a nine-year period, the State invested \$586 million trying to establish the Centers.³⁰

Similar capital and operating grants—overseen by the New York State Foundation of Science, Technology, and Innovation (NYSTAR)—have been made to support various types of innovation clusters. Before its merger with ESD in 2011 NYSTAR administered ten funding programs: 1) Centers for Advanced Technology (CAT) Program; 2) CAT Development Program; 3) College Applied Research and Technology (CART) Centers Program; 4) Regional Technology Development Centers (RTDC) Program; 5) Technology Transfer Incentive (TTIP) Program; 6) Capital Facility Program; 7) Faculty Development Program; 8) James D. Watson Investigator Program; 9) Matching Grants Leverage Program; and 10) Science and Technology Law Center. NYSTAR reports that it spent \$371 million in grants to these programs over the 2001 to 2009 period.³¹ Despite these investments Governor Paterson’s Task Force on Diversifying the New York State Economy through Industry-Higher Education Partnerships found, in a report released in December 2009, that there were significant gaps in the State’s strategy to foster the innovation economy.³²

All programs should be considered for elimination before the budget for economic development is increased. Given the State’s limited resources, difficult economic conditions, and other pressing spending priorities, ineffective programs are not affordable. It is very likely that significant funding can be identified in this way to provide resources for year two initiatives of the Regional Councils.

To realize the goal of reopening New York for business the Governor and the Legislature need to create a framework which assures that all the disparate entities and efforts of the economic development beast in New York are organized under one governance structure and strategy. The guidelines put forward in *Open for Business* are a good start in re-thinking New York’s economic development apparatus, but more detail needs to be added to the framework to minimize waste and improve outcomes.

ENDNOTES

¹ NYWorks, *A New Operating Model for NYS Government to Stimulate Real Regional Economic Development: Open for Business*, July 20, 2011.

² New York State Department of Labor, *Quarterly Census of Employment and Wages*, U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics. National employment grew from 90,528,000 to 131,785,000 from 1980 to 2000. New York's grew from 7,113,417 to 8,471,278.

³ *Ibid.* The number of jobs in New York fell from 8,471,278 to 8,339,290.

⁴ *Ibid.* The number of jobs in upstate (all counties except Long Island, New York City, and the Hudson Valley) fell from 2,839,096 to 2,707,750. In downstate counties net employment fell by just 642, decreasing from 5,632,182 to 5,631,540.

⁵ This is best conveyed by the compelling graphics in a report issued last month by the Alliance for a Greater New York (ALIGN), *Seizing the Moment: How Regional Economic Development Councils Can Build a Good Jobs Economy*, pp. 3-4.

⁶ Office of the New York State Comptroller, *Administration of Selected Projects through the Regional Economic Development Partnership Program*, Report 96-S-39, August 1998. p. i.

⁷ *Ibid.*, p. 1

⁸ *Ibid.*, p. 5

⁹ *Ibid.*, p. 8

¹⁰ *Ibid.*, p. 9

¹¹ Brian McMahon, "One State, Several Economies," *Times Union*, February 25, 2011.

¹² In addition to the tax expenditures and other programs discussed in this paper, it should be noted that New York has adopted a number of tax policies intended to provide favorable tax treatment to large multi-location firms to encourage them to locate and maintain headquarters in New York. One of these policies alone – the exclusion of interest, dividends, and capital gains from subsidiary capital – represents an estimated \$2.4 billion in foregone state tax revenue in 2010. Because these tax policies are not expected to be within the province of the new Regional Councils, they are not included in this analysis.

¹³ The Office of the State Comptroller has identified 279 local development corporations to date, 39 of which are located in New York City. For more information on these see Office of the State Comptroller, *Municipal Use of Local Development Corporations and Other Private Entities: Background, Issues, and Recommendations*, April 2011, p. 3, available at <http://osc.state.ny.us/localgov/pubs/research/ldcreport.pdf>.

¹⁴ Office of the New York State Comptroller, Division of Local Government and School Accountability, *Annual Performance Report on New York State's Industrial Development Agencies, Fiscal Year Ending 2009*, July 2011.

¹⁵ NYPA was created in 1931 and is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. It owns and operates six major generating facilities, eleven small gas-fired electric generating facilities, and five small hydroelectric facilities and a number of transmission lines.

¹⁶ New York State Energy Research and Development Authority, *2009-2010 Annual Report: New York's Clean Energy Economy*. Accessed May 3, 2011, from http://www.nyserda.org/publications/2010_annual_report.pdf. NYSEDA operates four programs that promote the clean energy industry and green jobs that are categorized as economic development programs by CBC. These cost \$144 million in 2010: 1) a \$24 million Energy Research and Development program, to increase clean technology uptake by state residents and provide businesses with basic research that can promote product creation; 2) the \$15.2 million STEP business park in Saratoga Springs, a former brownfield that is now dedicated to clean energy technology companies; 3) the Green Jobs Green New York (GJNY) program funded with \$68.3 million in Regional Greenhouse Gas Initiative (RGGI) funds to finance energy efficiency retrofits to advance sustainable community development and create retrofit jobs for residents; and 4) the EnergySmart program, a portion of which is dedicated to Research and Development on energy efficient technologies. About \$36.4 million of the Systems Benefit Charge has been made available for Research and Development in 2010 and is included as economic development spending

¹⁷ NYWorks, *A New Operating Model for NYS Government to Stimulate Real Regional Economic Development: Open for Business*, July 20, 2011, p. 21.

¹⁸ In addition, external databases from the Departments of Labor and Taxation and Finance can be helpful in validating firm claims. For example, New York City's IDA routinely checks reported firm performance against jobs data from the Department of Labor, and irregularities are investigated. The practice provides a "double-check" on program investments. Firms that receive Excelsior awards in the new state program will also be required to agree to external validation.

¹⁹ The new prison closure credit program illustrates the problem. Three of the facilities the Governor plans to close are located downstate, and four are in upstate counties. Each area is treated equally in terms of available development incentives. However, near downstate facilities where the economy is relatively strong and the property is valuable little or no incentive is needed to redevelop the sites; far greater incentives may be needed for upstate prison sites.

²⁰ Good Jobs First, *Show Us the Subsidies: An Evaluation of State Government Online Disclosure*, December 2010. Available at <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/showusthesubsidiesrpt.pdf>.

²¹ The Office of the State Comptroller has limited ability to audit these entities but initial reviews have revealed abuse. For a discussion of oversight improvements for local development corporations see Office of the State Comptroller, *Municipal Use of Local Development Corporations and Other Private Entities: Background, Issues, and Recommendations*, April 2011, p.9, available at <http://osc.state.ny.us/localgov/pubs/research/ldcreport.pdf>.

²² For one example, see Texas State Comptroller, SB275 Economic Development Reports, January 2009. Available at <http://www.texasahead.org/economy/sb275/>.

²³ Matt Hull et al, *Budgeting and Economic Development Performance: A Guide to Unified Development Budgets*, Corporation for Enterprise Development, November 2000.

²⁴ For a full description of the criteria see Empire State Development, *Regional Economic Development Council Capital Fund Guidelines*, August 2011, available at http://www.esd.ny.gov/CorporateInformation/Data/081811_RegionalCouncilGuidelines.pdf

²⁵ Citizens Budget Commission, *It's Time to End Empire Zones*, December 2008. Available at http://www.cbcny.org/sites/default/files/report_ez_12012009.pdf.

²⁶ New York State Division of Budget and Department of Taxation and Finance, *Annual Report on New York State Tax Expenditures, 2010-11 State Fiscal Year*, p. 213.

²⁷ New York State Division of Budget and Department of Taxation and Finance, *Annual Report on New York State Tax Expenditures, 2011-12 State Fiscal Year*, p. 62.

²⁸ Public Financial Management, *New York State Centers of Excellence Progress Review*, 2006, as cited in AT Kearney, *Delivering on the Promise of New York State: A Strategy for Economic Growth and Revitalization*. Prepared for the Empire State Development, 2007, p. 30.

²⁹ CBC staff interview with CEO Paul Tolley, July 7, 2010.

³⁰ AT Kearney, *Delivering on the Promise of New York State: A Strategy for Economic Growth and Revitalization*. Prepared for the Empire State Development, 2007.

³¹ New York State Foundation of Science, Technology, and Innovation (NYSTAR), *2009 Annual Report*, p. 12. Available at <http://www.nystar.state.ny.us/Assets/pdfs/2009annual.pdf>.

³² See the full report of the Task Force, *Diversifying the New York State Economy through Industry-Higher Education Partnerships*, December 14, 2009. Available at http://cce.cornell.edu/Community/Documents/PDFs/-IHETF_Report_FINAL.pdf.

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