CITIZENS BUDGET COMMISSION

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CBC RELEASES REPORT URGING PHASE-OUT OF NEW YORK POWER AUTHORITY'S ECONOMIC DEVELOPMENT PROGRAMS

Report Says Programs Are Not Aligned with New York's Energy or Economic Development Goals

New York, NY – September 22, 2009 – The Citizens Budget Commission (CBC) today released a report calling for an overhaul of the New York Power Authority's economic development programs. It calls, among other things, for the current programs to be phased out and existing contracts to be allowed to expire.

Release of the report coincides with a series of upcoming hearings being held across the state by six committees of the New York State Legislature. The purpose of the hearings is to examine the effectiveness and sustainability of the state's low-cost power programs. The first hearing will be in Niagara Falls on Wednesday, September 23rd. Subsequent hearings will take place in Syracuse on October 15th and Albany on November 18th.

The report—entitled "Overhauling the New York Power Authority's Economic Development Programs" —was undertaken because of the magnitude of the Power Authority, the breadth of its economic development initiatives, and the importance of maximizing the effectiveness of New York's economic development programs, especially in this challenging economy.

The Power Authority is the largest public utility in the nation, and its mission includes providing subsidized power for economic development. It administers nine different economic development programs that provide discount power to firms around the state. Many of the programs are set to expire over the next few years, and their expirations dovetail with both the restructuring of Empire State Development that began in 2007, and the creation of a new State Energy Planning Board in April 2008 tasked with examining economic development issues relative to power costs as part of its mission.

Of the nine programs, five—Replacement Power, Expansion Power, Industrial Economic Development Power, and Preservation Power—rely on hydroelectric power produced at Niagara Falls and the St. Lawrence-FDR facility. Another five—Power for Jobs, Economic Development Power, High Load Factor Power, Municipal Distribution Agency Power, and World Trade Center Recovery Power —rely on purchased power, for which the Authority goes into the marketplace and enters into contracts with suppliers. Although very little public data is available about the value of benefits being awarded to participating firms, the CBC applied a set of assumptions to construct a cost model and determined that the cost of these programs ranges from $479 million to $640 million annually.

The report cites three major problems with the Authority's economic development programs:

1. **The programs do not support New York's energy goals.** Offering deep subsidies for energy conflicts with New York's goals of reducing overall energy costs and usage. New York's energy prices are among the highest in the nation, reducing the state's economic competitiveness and stressing household budgets. Although the high cost of power is a concern for firms doing business in the state, subsidizing power works against environmental improvement efforts by encouraging consumption rather than conservation, a problem that is exacerbated by the fact that current allocations are made without regard to the environmental record of the participating firms. With ambitious goals in place for conservation and increased use of energy from renewable sources, New York needs programs that complement, not undermine, these goals.

2. **The programs are not connected to strategic economic development goals**. Power discounts are not coordinated with the state's overall plan for economic development. The allocations are not guided by an overall strategy to draw in new, or maintain existing, economic activity in the state, and they lack compelling and publicly disclosed cost-benefit justifications and performance metrics.

3. **The Authority's disclosure of the nature and cost of the economic development programs it oversees is insufficient.** The magnitude of the discount power programs run by the Authority is not publicly disclosed. Information about the sizeable loss of revenue to the Authority, due to the subsidies, is scarce and scattered; they are essentially "off the books." Recommendations of a blue ribbon commission that would have improved reporting on the benefits granted by these programs have not been implemented.

The report recommends that New York move away from subsidizing power. It urges state leaders to overhaul the Authority's economic development programs using four guidelines:

1. **Phase out current programs.** No new legislation should be passed to reauthorize the programs, and current contracts should be allowed to expire. Since the Alcoa contract was recently renewed and will not expire until 2043, the terms of that subsidy may warrant reexamination before the expiration date. Firms whose contracts are ending should have the ability to request a case-by-case review to determine if a more gradual phase-out should be applied to the withdrawal of current subsidies. As the old programs are phased out, they should be subject to greater disclosure requirements. The transparency and accountability measures recommended by the 2006 Commission should be implemented, as a first step toward better overall reporting on all economic development programs.

2. **Include assistance for firms with high energy costs as part of a comprehensive economic development strategy administered by Empire State Development.** The strategy should account for all the costs and benefits of a particular incentive package together. Guidelines for deciding which firms to assist should consider the types of jobs and sectors of the economy New York would benefit from most and could best attract, and whether high power costs are a location factor. High tech, clean tech, and other high-value- added industries likely would be a priority. Ease of application and simplicity for businesses should be the goal in the design of a single application.

3. **Sell power no longer used for economic development at market rates.** Some of new revenue should be dedicated to economic development programs operated by Empire State Development, the state's principal economic development agency. This would ensure that the funds remain devoted to economic development goals and would—under a revitalized strategic plan and the proper performance metrics—enhance their likely effectiveness. An alternative option is to allow the Authority to retain the new earnings and invest the funds in energy infrastructure improvements that it otherwise could not afford. A modern, more efficient, energy grid would provide broad benefits in the form of a more reliable system to virtually all businesses and residents in the state. Each use has its merits, and more public discussion and legislative consideration can help achieve a balanced approach.

4. **Link energy conservation and economic development goals and programs.** Firms that receive benefits specifically to alleviate the high cost of power should be required to submit to energy audits, and to comply with best practices for energy efficiency established by NYSERDA. New York Energy $mart, the program that NYSERDA finances and operates, could extend additional low-interest loans to private firms to make their facilities more energy-efficient. If requiring firms to secure financing proves problematic, the Authority's current financing options for customers seeking to make energy-efficiency upgrades could be used more broadly.

"The Power Authority's economic development programs are simply not good enough," said CBC President Carol Kellermann. "They should be brought to an appropriate close and replaced by programs that better serve the needs of the New York economy."

"New York taxpayers deserve economic development programs that maximize the potential for job growth," said CBC Deputy Research Director Elizabeth Lynam. "It's time to end ineffective programs and better use the state's increasingly scarce resources."

The full report is available at www.cbcny.org. The report is the second in a series of CBC research studies that examines New York's economic development programs and identifies ways that New York's current tools can be used more effectively. The first study— "It's Time to Eliminate the Empire Zone Program" —was released in December of 2008.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.