Seizing the MOMENT

How Regional Economic Development Councils Can Build a Good Jobs Economy

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ABOUT US:

ALIGN: The Alliance for a Greater New York's mission is to create good jobs, vibrant communities and an accountable democracy for all New Yorkers. Our work unites worker, community, and other allies to build a more just and sustainable New York.

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INTRODUCTION

With unemployment hovering around 8%, New Yorkers all around the state are in urgent need of an effective job creation plan to put our economy back on track.

To date, New York's main job creation strategy has largely consisted of the use of tax subsidy programs—and to a lesser degree, direct capital grants and loans—to incentivize private sector economic activity in localities across the state. To help offset the cost of opening new facilities, expand existing ones, or keep businesses from leaving New York, a sprawling and haphazard web of economic development entities regularly award tax credits, exemptions, abatements and other kinds of favorable financing to private businesses in exchange for job creation, capital investment, and other economic benefits. These entities include state agencies and hundreds of public and quasi-governmental bodies with diverse—and often overlapping—jurisdictions and functions.

Awarding of tax breaks comes at a very high cost to New York's taxpayers. It is estimated that government tax expenditures in the name of economic development cost state and local governments over $8.2 billion a year in forgone tax revenue.[1] As the tax burden is shifted away from private corporations through this "back-door," off-budget spending, day-to-day New Yorkers increasingly have to make up the loss with higher taxes or cuts in services.

Recognizing the balkanized nature of the state's current economic development efforts, Governor Andrew Cuomo has proposed the creation of Regional Economic Development Councils that would coordinate the allocation of economic development monies in ten regions of the state. If done right, a regional model that builds on the strengths of each region and reorganizes currently fragmented programs to make them more targeted and efficient can vastly improve how New York does economic development.

However, Regional Councils must avoid perpetuating the mistakes of the past. Currently, the state's economic development efforts are too often wasteful and ineffective. New York's economic development programs lack an overall strategic plan to guide investment decisions and are seldom evaluated for performance. Programs often fail to create the good jobs and other benefits communities need, even as the true costs subsidized projects impose on local communities and the local environment are not accounted for and examples of corporate subsidy abuses abound.

To truly move us in a new direction, Regional Councils must from the outset adopt strong measures to ensure that the investment of taxpayer dollars results in tangible benefits to working families and that our efforts lead to a sustainable economy with broadly shared prosperity:

- "Success" in economic development must be redefined from simply luring a business to operate in New York to creating quality jobs for local residents, building strong communities, and promoting a healthy and sustainable environment. Success must be measured by how closely economic development investments adhere to long-term strategic plans that prioritize economic, social, and environmental sustainability.
- Our investments must be result-oriented. At a time when the economic crisis continues to strain most New Yorkers, any performance-based approach to economic development must make quality job creation its priority outcome—one against which economic development efforts are periodically assessed and evaluated.
- Economic Development decision-makers must learn from the mistakes of the past that allowed rampant subsidy abuse, and use baseline criteria of performance standards, accountability, and transparency when evaluating projects subsidized and overseen by the Regional Councils.

- Regional Councils must perform meaningful coordination of regional economic development initiatives and avoid duplicating the functions of existing entities or becoming yet another layer of bureaucracy.
- Community and labor stakeholders must be involved in developing the goals and strategic plan of each Regional Council and must have a seat at the table for decision-making. The membership of Regional Councils must be diversified beyond business leaders in order to harness local expertise, drive innovation, develop the businesses and public structures that communities want and need, and give a voice to those directly impacted by economic development decisions.
- There must be a comprehensive look at the costs and benefits of economic development expenditures. Creating a unified economic development budget and a public, searchable website will help evaluate performance for a variety of economic development entities.

Experiences from within New York State and best practices across the country tell us that forging this new vision of our state's economy is indeed possible. Localities across the United States—a number of them in New York—have come to increasingly recognize the importance of wage standards to ensure that subsidies fund the creation of quality jobs with family-sustaining wages.[2] States like Minnesota and Connecticut have adopted strong subsidy recapture mechanisms that hold businesses accountable to the taxpa yers when firms fail to reach their job creation and investment goals.[3] In addition, Illinois and Wisconsin are among several states that regularly disclose the details of development deals through easily accessible, searchable databases.[4]

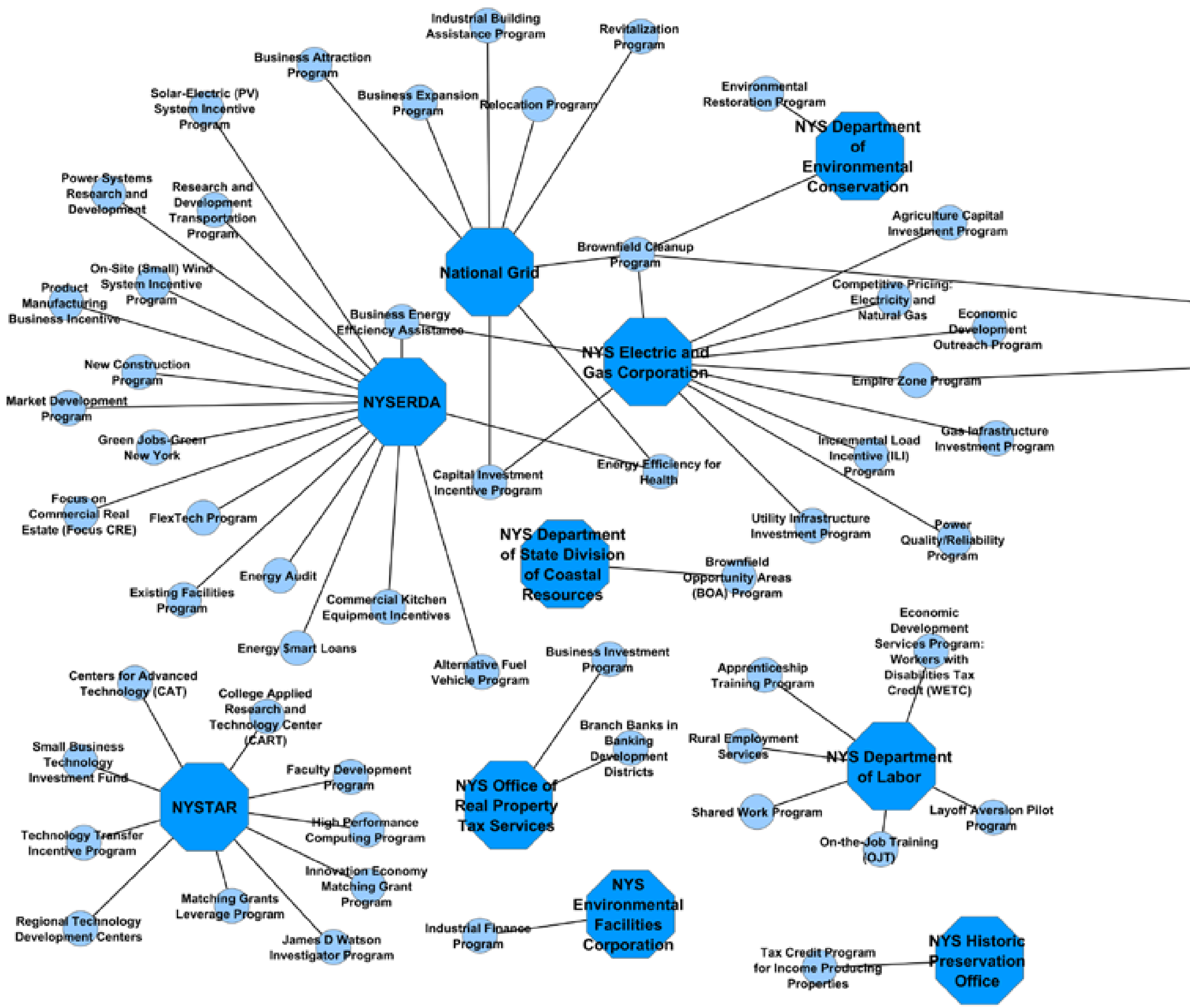
Subsidies may have a place in spurring economic activity in New York State; however, much must be done to ensure that New Yorkers get a good return on their investment and that economic development efforts build a sustainable economy that works for all. At a time characterized by high unemployment and severe budget cuts affecting the most vulnerable New Yorkers, it is imperative that policy makers ensure that any new economic development entity creates the jobs New Yorkers need and the benefits that local communities deserve. The establishment of Regional Economic Development Councils is a pivotal opportunity to address the failures of our current economic development tools and to reinvent our approach in a way that truly pays for performance and effectively helps pull New Yorkers out of the economic crisis.

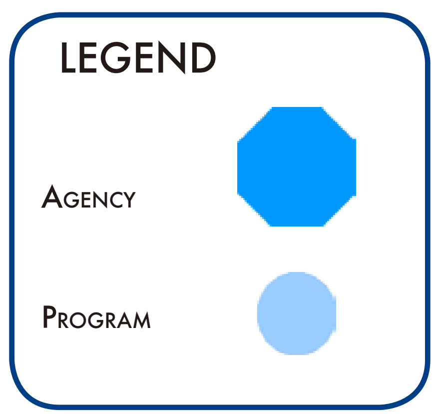
REGIONAL ECONOMIC DEVELOPMENT COUNCILS AT A GLANCE

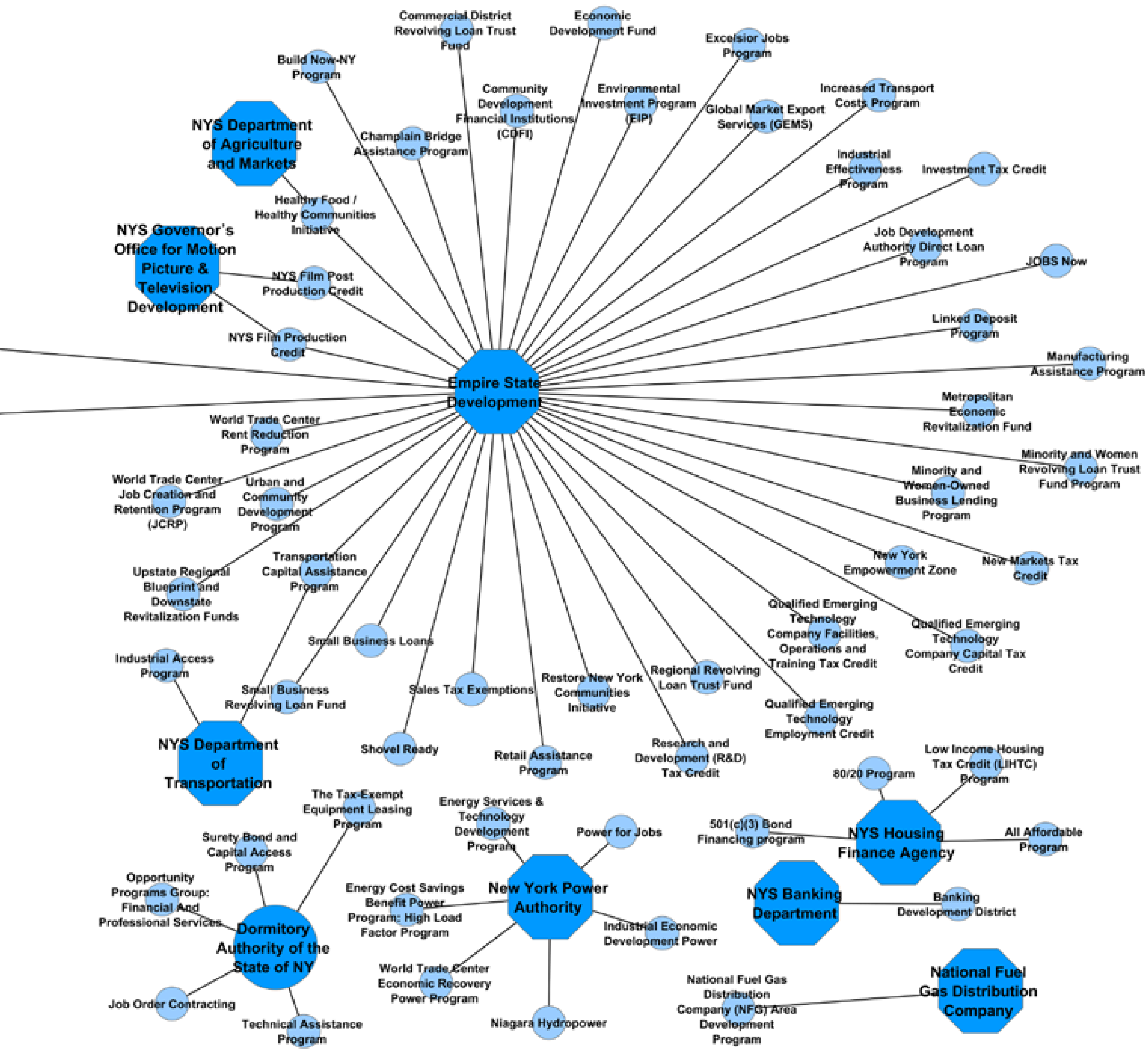
Regional Economic Development Councils, as conceived by Governor Cuomo, would coordinate the allocation of economic development funding in ten regions of the state, effectively serving as one-stop shops for all state-supported economic development and business assistance programs from state agencies and authorities. The Regional Councils, chaired by Lieutenant Governor Duffy, would bring together a diverse set of regional stakeholders and emphasize partnerships with institutions of higher education. The councils would be charged with developing and executing performance-based, long-term sustainable economic development strategies to guide each region's future economic development investments. In the proposed model, Regional Councils would compete with each other for funding based on the best development plans.[5]

Despite the lack of a formal framework, the state legislature approved $130 million for Regional Economic Development Councils through the 2011 state budget to be granted to the best projects put forward by the councils as determined by a competitive selection process. The Councils will also control $70 million in tax credits from the Excelsior Jobs Program. In addition, economic development programs totaling $2.7 billion will be subject to review by the Regional Economic Development Councils to ensure that projects subsidized through them are consistent with the long-term economic development strategy of the council from the appropriate region.[6]

Statewide Economic Develop







NOTES

This cluster identifies statewide economic development programs only. Each city, town and county often administers several local economic development programs.

We have grouped all Urban Development Corporation programs (doing business as Empire State Development Corporation) under the Department of Economic Development (doing business as Empire State Development). The ESD and ESDC have the same CEO, are co-located in the same offices and maintain the same website. ESD has been described as coordinating economic development, while ESDC implements the programs, however, these boundaries are vague and undefined in practice.

NYSTAR has been merged into ESD in the 2011 budget. The details of the merger are unclear at this point, so we kept their programs separate.

WHY A REGIONAL MODEL

Our current economic development efforts are fragmented and uncoordinated, and lack an overall strategy and plan to guide investment decision-making

A myriad of state and local, public and quasi-public economic development entities are used to promote economic activity across New York State. At the state level, the primary economic development body is Empire State Development Corporation (ESDC), a public authority which is functionally merged with the New York State Department of Economic Development (DED), also known as Empire State Development (ESD).[7] The ESDC is charged with managing and administering economic development programs as well as fostering and financing key projects. Within ESDC, there are as many as 202 subsidiaries that operate as independent entities with a board, president, and staff; each associated with a large-scale development project.[8] In addition, approximately 20 state agencies perform economic development functions and administer programs with an economic development mission.[9]

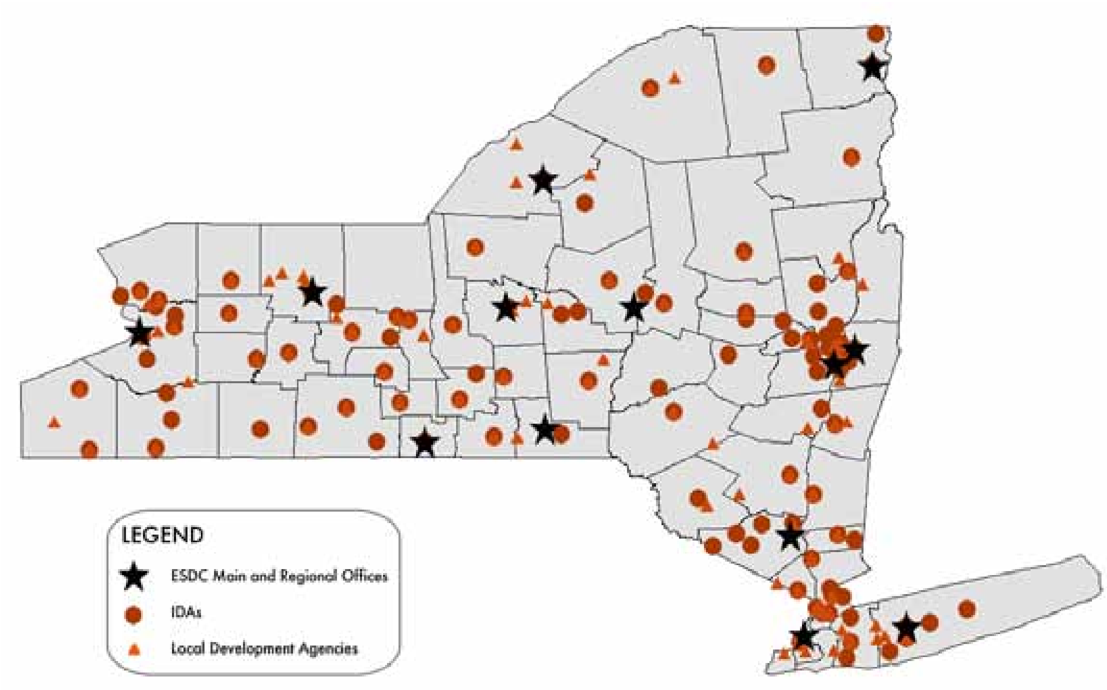
At the local level, a byzantine web of over 500 local development corporations, 114 Industrial Development Agencies, 82 Empire Zones Boards, 114 Business Improvement Districts, 49 Urban Renewal and Community Development Agencies and 10 Regional ESDC offices engage in economic development activities in villages, towns, cities and counties across the state.[10] Entities vary widely in form and geographic pattern, with some sparsely-populated counties being served by several agencies and some populous counties being served by only one.[11] Yet another level of complexity is added when the range of subsidy programs administered by each agency is considered. ESDC offers dozens of tax exemption programs and grants and some programs are administered by multiple agencies. For example, the Brownfield Cleanup Program is jointly administered by the Department of Environmental Conservation and the Department of Taxation and Finance, but also has involvement by ESDC, National Grid, and the NYS Electric and Gas Corporation.

New York also has in place a network of Regional Planning Councils, which are sometimes referred to as Regional Planning Commissions or Regional Planning Boards. These bodies coordinate economic and economicdevelopment-related research, analysis and planning work across 10 regions in the state and consist of local officials, community members, and economic development leaders.[12]

There is very little coordination among programs and no overall vision for regional and state economies to guide investment decisions. Too often, economic development entities in neighboring regions and even within the same region or county engage in unhealthy competition when trying to outdo each other's benefit packages to attract businesses.[13] This harmful race to the bottom results in jobs being shifted from town to town instead of new jobs being create in the state—at a substantial cost to taxpayers. Problematically, this competition has been found to favor wealthier municipalities within regional economies, fostering job creation and retention where it is needed least.[14]

Attempts to streamline this balkanized system through a regional approach have been tried before but have made little progress. In 1987, Governor Mario Cuomo directed the then Urban Development Corporation, which became ESDC in the 1990s, to work to develop regional development plans in concert with local economic development entities across the state.[15] More recently, Gov. Eliot Spitzer attempted to increase the focus on upstate New York's struggling economy by naming one upstate and one downstate ESDC chairman and subsequently announced a series of "regional blueprint meetings" focusing on revitalizing upstate New York's economy. At this time of prolonged economic crisis, New York cannot afford for the Regional Economic Development Councils to become another experiment that fails to produce results, or another level of bureaucracy in an already haphazard system.

ESDC, IDA and LDC Locations



Efforts are not sufficiently evaluated by performance. "Success" is based on promises, not on outcomes

Job creation and other economic benefits for communities are touted as the goal of economic development efforts, whether stated explicitly in program's mission statements or implicitly through politicians' enthusiastic speeches. However, development officials and some elected leaders are quick to declare "success" in economic development as soon as financial agreements are finalized and press statements are released to the media. In our current paradigm, we are quick to forget that lowering businesses costs through tax incentive and other programs is not an end in itself.

For example, many claim that "New York ranks 50th in economic development." This claim has its source in a report by the business-backed Tax Foundation which placed New York last in "business tax climate among all of the states." The Tax Foundation claims: "states with the best tax systems will be the most competitive in attracting new businesses and growth and most effective at generating economic and employment growth."[16] However, the states that rank highest in the Tax Foundation's index do not necessarily project economic strength and do not exactly measure up against other "business climate" indices.[17] To equate business tax climate with economic development is to ignore many other more important factors that businesses consider when deciding where to locate. While the Tax Foundation acknowledges that factors such as a quality educational system, a skilled workforce, and proximity to a raw materials or transportation centers, regulatory or legal structures and "quality of life" affect a state's business climate, their analysis does not consider these factors.[18] When other factors are considered, New York is closer to the middle of the pack. CNBC's America's Top States for Business recently ranked New York at 24th, based on a variety of factors beyond taxes that are essential for business development, including cost of business, workforce, quality of life, economy, transportation, technology and innovation, education, business friendliness, access to capital, and cost of living.[19] Measurements of success must move beyond tax rates, and start evaluating the goals and results of economic development programs.

Unfortunately, there is very little long-term monitoring and evaluation of the actual impact economic development projects have in towns and cities across the state. Where there are monitoring and evaluation processes in place—and where this information can be easily obtained by the public, which is often not the case—the analysis of program performance is often limited to the cost side of the development deal equation. For example, the Brownfield

Cleanup Program reports exclusively on the dollar values for redevelopment and remediation costs and credits claimed by subsidy recipients. Industrial Development Agency reports collected by the Authorities Budget Office present an annual snapshot of the dollar values for tax exemptions and Payments-in-Lieu-of-Taxes paid but doesn't include total or to-date tax exemptions over the life of the project, or benefits communities are receiving in exchange for their investment such as local residents hired, or the wages of the jobs created.

Despite the dominance of business people in key economic development roles, investment decision-making lacks the rigor and detailed costs-benefit analyses that successful business would demand. In the absence of a vision and plan for economic development that includes parameters beyond an initial financial transaction, programs often rely on large tax expenditures, but do too little to alleviate working poverty or improve quality of life for the local communities development deals are supposed to benefit.

The lack of an overall guiding plan, enforcement, and evaluation of subsidy policies results in the increasing susceptibility of economic development initiatives to political expediency. A comprehensive 1989 study evaluating New York State's subsidy programs reveals that subsidies were targeted "on a basis of what might be referred to as political awareness or sophistication rather than distress."[20] The goal of our economic development programs should not be to lower taxes for select corporations that have learned how to game the system. The goal should be to make smart investments that make New York a great place to live for years to come.

Current efforts are not creating the quality jobs and other benefits that communities need

New York State's economic development efforts have no proven track record of mitigating structural unemployment and growing rates of poverty.[21] While the general aim of these efforts is job creation, there is very little critical analysis of the costs versus benefits, or of the impacts of economic development initiatives compared to alternate uses of funds.[22] Where there is limited reporting available, it generally shows poor performance. In 2008, Industrial Development Agencies (IDAs)—public authorities that make up the largest of the state's economic development initiatives—awarded $135 million in net tax exemptions to businesses that created no jobs or actually cut jobs.[23] When they do create jobs, IDA projects often subsidize poverty wages that make it hard for working families to make ends meet.[24]

In 2010, the Brownfield Cleanup Program (BCP)—meant to incentivize clean-up of polluted sites—benefited a handful of developers who used most of the BCP tax credits to pay for new construction and only used a small fraction of the subsidies for actual clean-up.[25] Advocates for reform note that the program does little for poor, neglected neighborhoods located near abandoned industrial sites.[26] That same year, continuingly loosening eligibility standards and rampant abuse of zone boundaries originally meant to target investment to distressed areas contributed to the state's decision to end the Empire Zones program. However, companies already approved will continue to receive benefits for years to come.

It is time to demand that our state's economic development efforts become part of the solution to New York's economic crisis. Any new economic development initiative must correct for the mistakes of the past and chart a new, performance-based approach that benefits all New Yorkers.

A VISION FOR HIGH-PERFORMANCE REGIONAL ECONOMIC DEVELOPMENT

Regional Councils must measure long-term strategic plans against a truly sustainable vision that equally values economic, social, and environmental criteria

Regional Councils must be guided by an overall strategy and plan to guide investment decision-making. Rather than pursuing short-term economic growth, our economic development efforts must seek structural change and greater equity.[27] The visions and plans the Regional Economic Development Councils put forward must equally value economic, social, and environmental criteria. This triple bottom-line approach recognizes that economic development does not occur in vacuum and that many factors play a part in whether businesses—and communities—can thrive.

- SOCIAL SUSTAINABILITY. A society is more sustainable when prosperity is enjoyed by not just a select few, but when individuals have good jobs with family-sustaining wages that provide a decent quality of life. There is a growing body of economic literature that says that equity is good for economic growth.[28] Economic development efforts should benefit historically disadvantaged communities and alleviate poverty. Governance is also a key component of social sustainability. Low-income communities and communities of color, worker organizations, small businesses, and environmental groups have been traditionally left out of development discussions. They must have a voice in the decisions that shape their neighborhoods and regions.
- ENVIRONMENTAL SUSTAINABILITY. We live in a world with limited natural resources and one that is affected by climate change. Long-term strategic plans should take into account smart growth principles, transit-oriented development, high performance building standards and progressive land use policies. New York's Climate Action Plan Interim Report details the steps to be taken to reach the state's goals of reducing greenhouse gas emission 80 percent below 1990 levels by the year 2050. In order to realize the job creation potential of a strong climate action plan, our economic development programs should be aligned with New York's climate goals.[29]
- ECONOMIC SUSTAINABILITY. If our economic development efforts strive to incentivize a competitive market economy, Regional Councils' strategic plans must pay special attention to the long-term viability of businesses that apply for subsidies, encourage small and medium-sized businesses, ensure that business plans meet the needs of both employers and workers, and invest in the new green economy and in industries that build the middle class. Regional Councils should create an environment that benefits both businesses receiving financial assistance and those that are not. Incentives should create a level playing field that provides stability and continuity, not a series of loopholes that only the savviest businesses can jump through.

Coordination among a variety of stakeholders to create long-term regional plans that guide decision-making

The Regional Councils must effectively coordinate the allocation of economic development monies within their respective regions and across the state. Coordination must address the race to the bottom that occurs when entities and regions compete against each other to attract businesses. Successful regional plans must recognize the interconnectedness of cities, suburbs, towns and rural areas within their regions, so that all parts of a region can prosper.

Competition is an important driver of innovation. However, in straight competition, somebody always loses. In a state with such differing economic conditions among the different regions, we cannot rely on one simple metric for evaluating the individual economic development plans the regions put forward. What is deemed a "success" in the sparsely populated, economically depressed North Country might not be considered so in more populated, competitive areas like New York City. Regional economic development strategic plans must be judged on how proportional the criteria for investment are to unique factors like population and need, and how regions improve over time as related to factors such as structural unemployment and poverty rates. In this sense, the meaningful participation of a wide range of stakeholders including representatives from traditionally underrepresented communities, labor, and environmental organizations will be key to guiding decision-making and crafting the vision and criteria to judge regional plans.

It is essential that the communities that make up these regions be involved in the process of developing the structure and vision of these entities. Accordingly, the underlying data and assumptions on which Regional Councils are being developed should be provided to the public and ample time should be given for comment.

For the sake of government streamlining, Regional Councils should harness the expertise of existing entities such as Regional Planning Councils, instead of creating new, duplicative research, analysis and planning capabilities at the regional level.

BASELINE CRITERIA FOR REGIONAL COUNCILS

Economic development entities seldom account for the true costs of projects. Economic development deals can cost state and local governments millions and even billions of taxpayer dollars over the life of an agreement.[30] While the government guarantees long-term tax subsidies and other incentives, the deals do not guarantee long-term community benefit. In fact, there is very little in how we currently award subsidies that accounts for the true costs development projects impose on local people, local communities and the local environment.

Examples of corporations abusing economic development subsidies are all too commonplace. Companies like OSI Pharmaceuticals in Westchester have pitted community against community in seeking increasingly favorable subsidy packages.[31] IBM in the Hudson Valley and SI Group in Schenectady were able to keep millions of dollars in tax breaks despite failing to reach their job creation targets, laying off hundreds of workers, and defaulting on their investment commitments.[32]

Baseline criteria of performance standards, accountability, and transparency must be used for all economic development projects the Regional Councils subsidize and oversee. The investment of public money should result in public good. New York must adopt baseline criteria to ensure that the benefits of subsidized development projects outweigh the costs.

- PERFORMANCE STANDARDS to ensure that jobs created are good jobs and that subsidized projects encourage a healthy and sustainable environment.
- ACCOUNTABILITY MEASURES so that government protects the public interest during the development decision-making process and especially when businesses fail to live up to their promises.
- TRANSPARENCY REFORMS so that taxpayers see how and where their money is being spent and are able to advocate for economic development that benefits their communities as a whole.

PERFORMANCE STANDARDS

PROBLEM >

Economic development programs all too often subsidize businesses that create poverty-wage jobs that end up being a double cost to the taxpayer: once when the subsidy is granted and then again when workers seek public assistance programs to make ends meet.

SOLUTION >

Family-sustaining wage standards for construction and permanent jobs so that jobs created by taxpayer-subsidized development projects pay at least the prevailing industry wage and benefits for the corresponding region and thus do not trigger additional public supports and do not depress local wages.

BEST PRACTICE >

Forty-three states have job quality standards attached to various aspects of publicly subsidized development.[33] And over 100 cities and counties around the country have enacted living wage policies, with many of these policies covering jobs created with economic development dollars.[34]

The Good
Alstom Transport, Hornell and West Henrietta

Alstom Transport, which manufactures high speed trains and rail signaling equipment, is gearing up to expand its production in Western New York. In May 2011, the company announced its plan to create 200 new jobs at its West Henrietta manufacturing facility.[35]

Alstom's growth is partly the result of federal and state level public transportation investment, and partly the result of long-term commitment by city and county officials to support transportation manufacturing infrastructure. In Hornell, Alstom has invested heavily in its facilities, without the need for significant government support. Since 2002, Alstom has invested nearly $50 million in new and expanded facilities, including rehabilitating an old train depot for an administrative office. It leveraged $5.9 million in bonds and $3.6 million in grants and tax incentives from the Steuben County IDA, the City of Hornell IDA, and the ESDC for a new rail car assembly factory, an expansion of another factory, and the rail depot renovation.[36] In the last year, Alstom invested $3 million to enhance its 150,000-square-foot facility in West Henrietta.[37] As a result of these forward thinking investments, Alstom is prepared to take advantage of shifts at the federal and state level that are aimed at boosting our low-carbon public transit systems and win more work for New Yorkers.

Workers at Alstom are represented by Local 2741 of the International Association of Machinists and Aerospace Workers. They signed a new 3 year contract in 2010 that ensures good wages and benefits for the people of Hornell.[38] This project demonstrates that it is possible to use incentives to create good green jobs.

The Bad
Medley Centre, Irondequoit

Few projects have generated as much community opposition as Medley Centre, a $260 million mall renovation by the developer Bersin Properties, owned by Scott Congel. Despite hefty tax breaks and the need for economic development in the area, little work has been done on the project to-date and Bersin has neared delinquency on taxes and PILOT payments to the community.[39]

The original plans for Medley Centre involved revitalizing the existing mall, expanding it with 546,000 square feet of new retail, building a 420-room hotel, 330 residential apartment units, 195,000 square feet of office space and 158,000 square feet of theater, restaurant and other mixed-use space. Despite the enormous expense to taxpayers, the Monroe County IDA conducted only a one-page cost-benefit analysis. There was no independent analysis of the feasibility of the project, projected revenues, and hotel occupancy. This analysis also failed to consider the track record of prior developments related to the Congel family, which includes a 2006 legal settlement that ended a $100 million claim by business partners that Pyramid, the Congel family company, illegally siphoned profits from their malls.[40]

The Medley Centre land was initially taken off the tax roles in 2005, and then was sold to Bersin in 2009, at which point the tax abatement was renegotiated. Medley Centre will receive $37 million in tax breaks over 30 years, and $5 million in bonds.[41] Bersin promised to create 900 jobs, but has only created 50 to-date.

IDAs typically prevent retail projects from receiving incentives, but a loophole allows retail to receive tax incentives if there is a cultural component to the site, for example, if it calls itself a tourist destination. Because there are relatively few benefits to be gained by subsidizing retail, we must close loopholes in current economic development policy and ensure Regional Councils do not subsidize retail projects when these projects will only create poverty-wage jobs.

Baseline Criteria

The Bad
CVS Distribution Center, Chemung

In summer 2009, CVS Pharmacy broke ground on a regional distribution center in Chemung County. CVS received $6.5 million in bond financing from the Chemung County IDA, as well as a $4 million JOBS Now capital grant, a $750,000 grant to help extend utilities and other infrastructure to the site, and $1.4 million in Recovery Zone Bonds to help pay for infrastructure. CVS initially was set to receive Empire Zone benefits, but was later denied the benefits because it could not demonstrate that it would create $1 of wages and investments for every $1 dollar in tax credits.[42]

Instead of building the new CVS distribution center close to existing services, they built it in an area zoned for rural development where there were absolutely no industrial services. After rezoning the site from rural to industrial, nearly $9 million was spent to upgrade and construct infrastructure at the site. The IDA agreed upon a PILOT Increment Financing scheme that helped to pay for the infrastructure upgrades.[43]

The job creation potential of the facility is estimated to be between 500-600. As of December, 2010, CVS had hired 100 workers at the completed distribution center.[44] However, during a 2009 IDA hearing, the board decided to suspend employment requirements and it is unclear whether or not the suspension has been lifted.[45] Only 25 percent of the workers on the construction site came from the local area and the majority were non-union. The general contractor for this project, Gray Construction, is from Lexington, Kentucky, and at one point during construction, an electrical contractor was caught using undocumented workers at the CVS site.[46]

Huge incentives were approved for CVS, despite the dubious economic impact of the project. In addition to primarily creating low-wage permanent jobs, destroying farm land and contributing to sprawl in the region, the general contractor for this project is from out of state and non-union. Economic development officials missed the opportunity to leverage incentives to create good construction jobs for local residents, and good permanent jobs for residents closer to where they live.

PROBLEM >

Subsidized companies often contract with out-of-state workers for construction jobs and create few opportunities for local community residents.

SOLUTION >

Regional Hiring requirements and pathways for apprenticeship and pre-apprenticeship programs to ensure development projects create jobs and training opportunities for local workers and that money keeps circulating within the regional economy.

BEST PRACTICE >

New York Labor Law states "it is declared public policy of the state of New York to develop sound apprenticeship training standards and to encourage industry and labor to institute training programs."[47] Apprenticeship programs are already required of publicly-financed construction projects in New York, and several IDAs, including Onondaga County IDA, Hempstead IDA, Monroe County IDA, Nassau County IDA, Oswego County IDA and Rockland County IDA have already set a precedent through regional hiring practices.[48]

PROBLEM >

Subsidizing projects that generate a high degree of carbon emissions results in costs in the long-term due to the adverse effects of climate change and in the short-term when local residents' health is affected by air polluting agents. Buildings in the commercial, residential and industrial sectors account for 62% of New York's carbon emissions, with commercial building alone accounting for 25% of the total.[49] Locating business far outside of urban centers and existing infrastructure increases pollution and decreases quality of life by increasing drive times to and from work. Sprawl is also costly both to local governments that have to pay for the construction of new public infrastructure and services to serve the project, and to residents in the form of additional transportation expenses.

SOLUTION >

High-performance building standards for energy efficiency and the reduction of carbon emissions, and smart growth standards so that subsidies favor projects that locate near already developed areas with access to public transportation, affordable housing, and built water and sewage infrastructure.

BEST PRACTICE >

Projects funded by Regional Councils should abide by the recently-passed Smart Growth Public Infrastructure Policy Law. The law directs New York state agencies to make their infrastructure spending decisions in accordance with smart growth land use principles, prioritizing the location of infrastructure near already-developed areas close to where the workforce lives and thus avoiding costly sprawl that infringes on open and natural spaces.[53] The Illinois Business Location Efficiency Incentive Act, enacted in 2005, gives a small additional corporate income tax credit for

The Good
Noble Bliss Wind Farm, Eagle

In Wyoming County, Noble Environmental Power has invested in hundreds of wind turbines, spurred in part by New York's renewable energy policy initiatives. NYSERDA signed a 10-year agreement with Noble to buy Renewable Energy Credits as part of the Renewable Portfolio Standard. At the Noble Bliss Wind Farm, located just outside of Bliss, NY, in the town of Eagle, Noble has invested $220 million in 67 wind turbines that are capable of producing 100.5 megawatts of energy.[50]

Wind power has many benefits. Wind power generation results in a reduction in carbon emissions and air pollution as our economy shifts from coal-based electricity. Wind is a renewable and decentralized energy source. Wind turbines located on farmland can provide a source of revenue for struggling farmers, leading to the preservation of open space and agricultural land. Tax revenues from wind farms can also reduce the tax burden on community members. It is also possible for landowners who agree to have turbines placed on their land to receive royalty payments. Although wind turbines create few permanent jobs, the construction of the wind turbines can provide good jobs to community members. In the case of Noble Bliss, construction was done by union workers, ensuring quality wages, benefits and safe working conditions.

The town and county reaped additional benefits from the Noble Bliss project. The company signed a PILOT agreement in which Noble will pay local communities $1,600 per megawatt per year (over $160,000/year). This payment will be divided so that 60% will go to the school districts, 24% to the county and 16% to the town. Noble also signed a Host Community Agreement with the Town of Eagle, which will provide $6,400 per megawatt per year (over $640,000/year).[51] The revenue from these agreements has been used to eliminate property taxes for residents. It is estimated that this project will bring in $121 million in new revenue to the town, schools and county over the next 20 years. It will generate enough clean energy to power 33,000 homes. Over next 20 years, it will generate as much energy as burning 2.2 million tons of coal.[52]

Baseline Criteria

Economic Development in a Growing Economy (EDGE) deals in which the job site is accessible by public transportation and/or proximate to affordable workforce housing. The California Infrastructure and Economic Development Bank applies location efficiency standards to its Infrastructure State Revolving Fund (ISRF) Program through use of a 200-point scoring system to rate applications and give preference to applicants that serve environmental and housing goals; are located in or adjacent to areas with high unemployment, low family incomes, slow job growth, and/or high poverty rates; and improve the quality of life in terms of public safety, healthcare, education, day care, public transit, or downtown revitalization.[54]

ACCOUNTABILITY

PROBLEM >

Local governments have little say in decisions that can significantly shrink their tax base and jeopardize services.

SOLUTION >

Local government oversight of project approvals that impact their revenue stream.

BEST PRACTICE >

Many places, including Minnesota, currently limit subsidy decision-making power "to only those governmental bodies that are elected by the public and whose members' votes are transparent to the public."[55] Here in New York State, the Rockland County IDA also "negotiates PILOTs with the school districts and municipalities and reaches an agreement with both before granting them to a business."[56]

PROBLEM >

Very little prevents subsidy recipients from keeping taxpayer money after they close facilities, lay off workers, fail to create jobs or invest in capital, or move to other areas before the terms of their deal are up.

SOLUTION >

Mandatory subsidy recapture mechanisms, or "clawbacks" for projects that fail to meet their contract commitments.

BEST PRACTICE >

More than 20 states and dozens of cities already use clawbacks with one or more of their subsidy programs.[57] Minnesota's law mandates that all state and local subsidy agreements contain provisions for the total or partial recapture of subsidies, with interest, if companies fail to meet agreement terms and bans noncompliant companies from receiving further subsidies in the state for five years or until they have repaid their debt.[58] The State of Virginia, ranked by Forbes magazine as the top state for business for several years in a row, recalculates original tax credit levels granted to companies under its Major Business Facility Jobs Tax Credit to reflect downward changes in the number of qualified full-time employees, increasing a company's taxes to make up the difference. If employment falls below a determined minimum threshold, all of the subsidies are recaptured.[59] Connecticut requires repayment of the full value of a subsidy received through any of its economic development programs, plus a 5% penalty, if the subsidized company relocates outside the state within ten years or during the term of the agreement, whichever is longer.[60]

PROBLEM >

Currently, the officials and board members of economic development entities are overwhelmingly from the business community. Without breaking away from this status quo approach, it will be impossible to chart a new and improved course for economic development.

SOLUTION >

Designated representation from a diverse set of stakeholders including labor, community, environmental and local government, so that those most impacted by development have a say in development decisions.

BEST PRACTICE >

The Portland, Oregon metro area offers a good example of regional planning and cooperation with an emphasis on equitable regional growth. Although the Portland Metro Council has much broader powers than what has been proposed for New York's Regional Councils, it is notable because the Council is a directly elected political body that brings together the local governments of twenty-four cities and parts of three counties to address issues of economic development, land use planning, transportation, affordable housing, and green space protection. Because members of the Council are elected, there's a high degree of accountability to the public. The Council developed a Strategic Plan for Equitable Growth: The 2040 Growth Concept, which involved input from the neighborhood level, engaging civic associations, churches, communities of color and others, and explicitly encouraged rural, suburban and urban constituencies to weigh in.[61]

PROBLEM >

Businesses often claim tax breaks for shifting jobs from locality to locality rather than creating new jobs. Industrial Development Agencies are currently subject to anti-raiding legislation, but pirating still happens because of significant loopholes.[62]

SOLUTION >

Strong anti-raiding measures to prevent development entities from engaging in unhealthy competition and using taxpayer dollars to shift jobs from region-to-region or town-to-town instead of creating new jobs.

BEST PRACTICE >

At least eight federal economic development programs contain anti-pirating provisions, and at least a dozen state and regional anti-poaching policies exist to enhance cooperation—rather than harmful competition—for attracting jobs to a region. Anti-poaching provisions can include language that specifically addresses the rules of conduct for prospecting, marketing and advertising, notification, and interaction with the real estate community. The code of ethics of economic development entities in the San Francisco Bay Area and in the Metro Denver area provide good models. Revenue sharing on specific projects and joint tax increment financing areas that overlap boundaries of adjoining municipalities have also been implemented.[63]

TRANSPARENCY

PROBLEM >

The economic development application and approval process does not accurately measure the true cost-benefit of projects, and decision-making often happens behind closed doors, with insufficient documentation for projects that have direct impacts on communities.

SOLUTION >

Measure the full impact of development projects and give community a voice by incorporating community impact reports and accessible public hearings. Economic development entities must produce cost-benefit analyses that take into account economic, social and environmental sustainability principles, and must involve meaningful participation from communities. Accessible public hearings for all development decision-making processes with sufficient notice and documentation would help communities evaluate projects that directly impact them.

BEST PRACTICE >

The NYC IDA's recently enacted disclosure law offers an excellent example for the rest of the state. Any business accepting tax subsidies greater than $150,000 or that is sold or leased land and will create 25 or more jobs must disclose: net subsidy for the life of the deal; number of jobs created to-date, retained to-date and promised over the life of the deal; percentage of jobs that are full-time, part-time, consultants or temporary; annual wages in four categories (below $25,000, $25,001 - $40,000, $40,001 - $50,000, $50,000 and above); part-time or full-time health care; total amount of subsidy received by a firm to-date and amount remaining; value of any funds recaptured; the "trigger" that would make the firm eligible for penalty or recapture; the percentage of employees that are New York City residents; the list of leases or sale of city-owned land and the terms of those leases; and information listed in a searchable database.[64]

The Bad
One Sunset Restaurant Club, Buffalo

The Erie County IDA and the Buffalo Economic Renaissance Corporation loaned and granted $160,000 to Leonard Stokes, a former basketball star from Buffalo, to start a restaurant and club. Unfortunately, the $260,000 project lacked a viable business plan and the original loan was rejected. Soon after the first rejection by BERC's Large Loan Committee, and following advice from a Vice President of BERC, Michelle Barron, Stokes requested a smaller loan of $40,000, which went through the Small Loan Committee, of which Barron was a member. Stokes received two $40,000 loans from BERC, as well as a $30,000 grant. The grant came from federal anti-poverty money allocated to the Ellicott Council District and which the restaurant was not qualified to receive because it was in the Delaware District.[65]

City officials, including Barron, then urged the Erie County Industrial Development Agency to loan the restaurant $50,000. They did not disclose to the IDA that the restaurant was nearly bankrupt. The IDA made the loan without checking financial statements or public documents showing One Sunset was in trouble.[66] The restaurant closed a few months later, in December 2008. Even before the restaurant opened, the landlord had sued Stokes for unpaid rent. Sales tax went unpaid, as did bills from vendors, and the month after the restaurant opened, telephone service was cut off. Yet the Erie County IDA still loaned the restaurant $50,000. Claims against the restaurant in 2009 topped $235,000. The involvement of city officials even led to an FBI investigation and the eventual dismissal of Barron from her post.

While the intent to help a small business that was trying to contribute to downtown Buffalo's renaissance was good, there simply was not enough due diligence on the part of economic development officials to ensure this business was worthy of investment. Although there was mounting evidence of impropriety during the course of this deal, it took more than a year from the time the scandal broke before Barron was fired from BERC.[67]

PROBLEM >

There is a lack of reporting or poor reporting on individual programs and entities. Costs are spread out among many programs without a centralized source for finding out how many tax breaks a particular company gets in total. Economic development becomes largely a "hidden cost" outside of the accountability and transparency demanded of budget appropriations.

SOLUTION >

Increased monitoring and improved reporting, including deal-specific disclosure of information on all public subsidy deals and company compliance, including details of public costs and public benefits annually updated in a searchable state website and monitored for accuracy. New York must also adopt an annual Unified Economic Development

Budget that provides a comprehensive inventory of all "front door" and "back door" line-item spending for economic development, thus reflecting true costs for review by state legislators during the budget process.

BEST PRACTICE >

Illinois' subsidy disclosure system consists of a searchable database that provides access to PDF copies of reports submitted by recipient companies. It covers ten programs, including major ones such as EDGE tax credits.[68] In addition to subsidy amounts, the reports contain job creation and retention data for full-time and part-time workers, including breakdowns by occupational categories with average salaries in each. The reports also require recipients to indicate whether they reduced employment at another site in the state."[69] Texas, New Jersey, Vermont, and Ohio, among others, have Unified Economic Development Budgets. Vermont's, for example, includes appropriations from FY06 through FY 2011, expenditures from FY06 through FY 2010, aggregate amount and program-specific amounts for state economic development programs, a summary table with recent economic development related tax expenditure data from the Tax Department, additional detail on specific state programs, and summary information on state administered federal American Recovery and Reinvestment Act (ARRA) economic development related programs.[70] This budget, however, lacks project-specific details of the businesses that received economic development funding, the jobs created, and other community benefits.

The Good
Just Bagels Manufacturing, Inc. The Bronx

Just Bagels is a small business that manufactures fresh and frozen bagels and related products for sale to restaurants, supermarkets, gourmet food stores, hotels and other institutions and food distributors. In 2000, the business needed to expand and received bonding and tax exemptions to move to a location in Hunts Point.

The NYC IDA provided $2 million in Manufacturing Facilities Bonding and $31,420 in local property tax exemptions over the life of the project. The total project cost was $2.2 million. The renovation was completed by a union contractor who is a member of the Building Contractors Association, ensuring quality jobs for the construction workers. Before Just Bagels sought to expand, they had 45 full-time employees and they estimated they would create 15 more employees through the expansion. What resulted was the creation of 57 new jobs, 42 more than projected.[71]

Just Bagels is a good example of a viable small business that simply needed a small amount of support to grow. With a relatively small investment, they were able to exceed their employment targets and contribute to the local community. The company emphasizes their local sourcing and local hiring practices, buying all their supplies—including flour, sugar, seeds, onions, cornmeal, bags and boxes—from local suppliers, and all of their employees are Bronx residents.[72]

CONCLUSION

With the creation of Regional Economic Development Councils, New York currently faces a choice about how to rebuild our economy. While many recognize the need to overhaul New York's economic development system, we believe a regional approach is only part of the solution. Without job quality standards, New York will continue to subsidize poverty wage jobs. Without environmental standards, New York will invest in sprawl and inefficient buildings that increase the costs of our health and planet. And without accountability and transparency, New York will continue to squander millions of tax dollars on businesses that do not meet their promised development goals.

Regional Councils need to be part of a paradigm-shift in which "success" in economic development is defined by outcomes. We must abandon the approach that assumes that simply lowering business taxes will automatically result in concrete benefits for New Yorkers. Regional Councils must play a central role in coordinating and streamlining our currently balkanized economic development efforts. They must also include community, labor and environmental stakeholders who are directly impacted by development into the planning and decision-making process.

Regional Councils must incorporate performance-based evaluation systems, where "performance" is defined by the attainment of tangible benefits for communities across the state: good jobs for local residents, vibrant communities, and a healthy environment. At a time when unemployment is stubbornly high, quality job creation must be the priority goal of any new economic development initiative. This is especially important in a period of fiscal crisis. Every taxpayer dollar going towards economic development must be carefully evaluated against a rigorous cost-benefit analysis that gets New Yorkers their money's worth and makes subsidies pay.

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