



# CITIZENS BUDGET COMMISSION

Two Penn Plaza ☐ Fifth Floor ☐ New York, NY 10121

## Testimony to the Joint Legislative Budget Hearing on Economic Development January 31, 2012

Good afternoon and thank you for the opportunity to testify today. I am Elizabeth Lynam, Vice President and Director of State Studies for the Citizens Budget Commission, or CBC. As you know, the CBC is a nonpartisan, nonprofit civic group dedicated to improving the finances and services of New York City and New York State.

Several years ago the CBC began focusing on New York State's economic development efforts and to date has issued three reports, *It's Time to End the Empire Zones Program*, *Overhauling the Economic Development Power Programs of the New York Power Authority*, and most recently, *Avoiding Past Mistakes: Principles for Governing Regional Economic Development Councils*. All are available at our website, [www.cbcny.org](http://www.cbcny.org). Although I am happy to answer questions about all three reports, today I will limit my testimony to addressing the fiscal year 2012-13 Executive budget proposal, which calls for an additional round of competitive grants for economic development.

Today I would like to make two recommendations regarding this proposal. First, do not authorize additional funds for another round of regional competition until the "hydra" of economic development is tamed. And second, improve the accountability and transparency of all expenditures in this area to make sure that grants that were just made, and the preexisting programs in the area, are a success. The Regional Council competition was helpful in catalyzing a more creative and collaborative process for allocating economic development funds. Before additional funds are committed to another round of competition, however, it is important to pause and build on the strengths the initial phase of the process revealed.

**1. Tame the Hydra** - Hundreds of entities, including state agencies, public authorities, and local agencies spend public money and approve economic development projects in New York State, each with different application processes and requirements. The State and local investment in direct subsidies and tax expenditures for economic development adds up to approximately \$6.6 billion dollars per year through these separate entities. Our analysis of the pitfalls of earlier attempts to use a regional approach shows that regional councils not fully empowered to use all the tools at their disposal are not able to be effective. Although progress allocating the funds has been made with the Consolidated Funding Application, the Regional Councils still only have jurisdiction over a small subset of all statewide economic development funding.

The apparatus of economic development in the State should be brought together under a management structure that works to make the most efficient and effective types of



# CITIZENS BUDGET COMMISSION

Two Penn Plaza ☐ Fifth Floor ☐ New York, NY 10121

investments. This means that some agencies should be eliminated and others consolidated. The more than 100 IDAs in particular are a striking example of the need for consolidation. Several regions, including the Capital, Hudson Valley, and Western New York, have more than a dozen distinct IDAs within their borders.

Yet only one regional strategic plan, from the Capital Region, proposed small consolidations: combining the Warren County Economic Development Council, the Washington County Local Development Corporation, and the Adirondack Regional Chamber of Commerce. Simply put, more needs to be done to make the organizational chart of economic development agencies – the hydra – make sense. To truly open New York for business, all oars in the water need to be made to row in the same direction.

**2. Apply Standardized Performance Measures to All Regions** - Standardized metrics allow for accurate comparisons across regions, and the aggregation of data to measure statewide results. As the process stands now there is no way to develop meaningful conclusions about the success or failure of any particular investment. Let me use an important metric, the leveraging ratio of public to private capital, as an example. The North Country's plan included a leveraging ratio of 6.5:1 and the Capital Region's a 5:1 ratio. Central New York's plan had an incredibly high ratio of 28:1. Each region calculated the ratio using a series of assumptions, but without knowing what these assumptions were or whether the calculations were performed using a standardized method the usefulness of the metric is extremely limited.

To improve accountability the Councils should strive for, and Empire State Development should develop, a consistent set of performance measures that look not only at output measures, such as the number of jobs, but also at outcome measures, such as economic growth and poverty levels. And they should all be measuring against the same benchmark - a prior year's performance, each other, and statewide and national points of comparison. These metrics could be developed by drawing on some of the best practices from the Regional Councils. For example, the Central New York regional plan included a metrics dashboard that built on regional outcome indicators such as population, unemployment, and poverty and tied more specific metrics such as housing affordability, to the region's three goals of strengthening targeted industry concentrations, improving competitiveness, and revitalizing urban cores.

Some regionally important metrics may still be necessary, such as Canadian border crossings for the North Country region, but the goal should be a performance measurement system that accounts for every dollar spent or foregone in the name of economic development no matter where it happens in the State.



# CITIZENS BUDGET COMMISSION

Two Penn Plaza ☐ Fifth Floor ☐ New York, NY 10121

**3. Improve Transparency** – Employing standard metrics and methods is important but it is equally important that they be reported to the public. In economic development this is especially true because New York’s past efforts have been marred by unsavory practices. Loopholes allowed firms to change names to claim credit twice for jobs created, and lucrative tax credits have been awarded for the promise of only one or two jobs. The goal should be full disclosure of the costs and benefits of every investment. One model, now embraced by several states (Texas, Illinois, and Vermont), is a Unified Economic Development Budget (UEDB). The UEDB would include direct subsidies, tax expenditures, discounted power grants and any other investment from any level of government in the State, including IDAs and other local economic development agencies.

Governor Cuomo’s regional economic development competition was a success because it brought key regional stakeholders together to focus on the needs of each region with renewed enthusiasm. However, before additional funding is distributed New York State needs to ensure that the \$783 million just awarded and the \$6.6 billion from other sources are actually producing results for each region and the taxpayers as a whole. The next steps in the reform agenda should be consolidating economic development efforts, strengthening accountability, and improving transparency.

Thanks again for the opportunity to testify today. I am happy to take questions.