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Testimony on Economic Development Proposals in the NYS Executive Budget for FY2018

Submitted to the Joint Legislative Conference on Economic Development
January 31, 2017

Thank you for the opportunity to submit testimony. The Citizens Budget Commission (CBC) is a nonprofit, nonpartisan organization whose mission is to achieve constructive change in the finances and services of New York City and New York State government. CBC has completed extensive research on state and local economic development efforts.

Our September 2016 policy brief, *Increasing Without Evidence: NYS Economic Development Spending Update*, found State economic development costs totaled \$4.0 billion in fiscal year 2016. State tax breaks were \$2.4 billion, or 60 percent, and direct state spending accounted for \$1.6 billion, or 40 percent.¹ Empire State Development (ESD) spending was the largest single cost, at \$739 million in fiscal year 2016.

There have been persistent and well-documented problems with economic development efforts, particularly with limited transparency and an inability to demonstrate measureable results.² In addition, an increasingly large portion of the resources is distributed through individual deals and programs that lack standardized metrics and thorough reporting. For example, recipients of the Excelsior Jobs Tax credit have standardized eligibility and reporting requirements, but projects funded through the Buffalo Billion and some Regional Economic Development Councils are selected less systematically and do not report thoroughly and regularly on their results.

The Executive Budget adds \$644 million in fiscal year 2018 spending and \$1.5 billion in cumulative future tax credits without addressing these issues. It proposes \$1.7 billion in ESD spending, more than double that in fiscal year 2016.³ The Executive Budget also includes \$650 million in non-ESD capital spending for economic development in fiscal year 2018, an eleven-fold increase from the \$57 million spent in fiscal year 2016. Moreover, proposed tax credits for life sciences and a continuation of the film production and post-production tax credits would cost the state up to \$1.5 billion in future foregone revenue.

Moreover, the budget proposal takes a step in the wrong direction by weakening reporting requirements for the proposed Excelsior Business Program, intended to replace START-UP NY, which faced criticism for its lack of transparency. Furthermore, the State has not ended the use of nonprofit entities and the State University of New York in awarding business subsidies despite the recent bid-rigging scandal.⁴

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The growth of economic development costs should be halted, not accelerated, until the effectiveness of each program is demonstrated through standardized performance measures and transparent reporting. In order to improve transparency and accountability, New York State should implement a consolidated economic development budget that incorporates state agency spending, tax incentives, and public authority benefits. In addition, a publicly accessible, searchable database of economic development incentives should be created.

¹ Total includes spending by State authorities as well as agencies.

² See: Riley Edwards and Maria Doulis, *Should New York's REDCs REDO Their Plans?* (Citizens Budget Commission, December 2016), <https://cbcny.org/research/should-new-yorks-redcs-redo-their-plans>; Rahul Jain and Riley Edwards, *An Assessment of Performance Reporting by Regional Economic Development Councils* (Citizens Budget Commission, November 2015), <https://cbcny.org/research/assessment-performance-reporting-regional-economic-development-councils>; and Jamison Dague, Tammy Gamerman, and Elizabeth Lynam, *Bigger Not Better: New York's Expanding Economic Development Programs* (Citizens Budget Commission, February 2015), <https://cbcny.org/research/bigger-not-better>.

³ This total includes a \$200 million capital disbursement for Moynihan Station as part of a proposed appropriation of \$700 million.

⁴ See: Citizens Budget Commission, *Letter from Good Government Groups on Economic Development Contracts* (October 2016), <https://cbcny.org/advocacy/letter-good-government-groups-economic-development-contracts>.