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**Testimony of George Sweeting, Deputy Director,
Before the New York City Council Committee on Economic Development
On Economic Development Reporting and Intro. 373-A**

May 3, 2005

Chairman Sanders and members of the Committee on Economic Development: thank you for inviting IBO to testify at this hearing on Intro. 373-A.

This legislation would amend the section of the City Charter that requires the Economic Development Corporation (EDC) to issue annual reports on its business retention/economic development agreements. These reports, known as the Local Law 69 reports, are named for the 1993 legislation that mandated them. As you know from IBO's 2001 brief reviewing the EDC reports and our previous testimony to the committee on this subject, IBO has long been concerned with the shortcomings of the Local Law 69 reports.

Some of these shortcomings concerned the timeliness and distribution of these reports. We acknowledge the extent to which EDC has successfully addressed those problems.

But many critical problems pertaining to the consistency, completeness, and accuracy of the data in the reports remain. We believe that building upon Local Law 69 by amending the City Charter to expand its reporting requirements, as is the aim of Intro 373-A, would be in the public interest. It would yield a better document allowing the City Council to perform its oversight function with respect to the city's business retention/economic development agreements, as well as permit other interested parties such as IBO and the general public, to evaluate the effectiveness of these agreements.

Summary of IBO's past findings. I will briefly summarize our findings regarding the current Local Law 69 reports before considering some of the specific features of the proposed legislation. Copies of our 2001 report and our previous testimonies are available on IBO's Web site.

IBO's study found significant problems with how the fiscal costs and benefits of economic development agreements are estimated. In short, the Local Law 69 reports generally exaggerate the return on the city's investment in economic development agreements because costs tend to be understated and benefits tend to be overstated. Costs are underestimated because only deals that cost the city more than \$250,000 or retain more than 25 jobs are covered by the reports. And for deals covered in the report, only eight years worth of benefits are reported and some types of costs, such as the tax exemption on interest income received by Industrial Development Agency bondholders, is omitted from the report. The benefits that flow from the agreements, on the other

hand, tend to be overestimated, primarily because the report's methodology is based on the extreme assumption that if not for the deal, the firm, all of its employees, and many of its suppliers and their employees would leave the city.

IBO also found the jobs data in the Local Law 69 reports to be generally unreliable and often inconsistent over time. This is a critical problem, because accurate projections of the number of jobs expected to be retained or created as a result of any business retention deal is the basis for calculating the agreement's potential economic and fiscal benefits. And the actual employment level of the firms must be compared to these projections to determine whether the deal has generated the projected benefits—and if not, whether any "clawback" provisions should be enforced.

These and other shortcomings of the Local Law 69 reports make it extremely difficult to use the reports to evaluate the effectiveness of the city's economic incentive deals or to provide oversight of the city's incentive policies, in spite of the wealth of data amassed in each annual report.

Intro. 373-A. The committee's staff deserve a great deal of credit in sorting through the concerns and recommendations made by IBO and other interested parties and developing legislative language addressing many of those concerns. Before mentioning how some of our most important concerns are addressed by Intro. 373-A, I would like to call attention to one provision of the legislation we believe will make it easier to improve and maintain the value of the Local Law 69 reports in the future: the Methodology Committee, which would make annual recommendations to EDC on how economic development projects should be reported and evaluated in the Local Law 69 reports.

The Methodology Committee: If asked what information should be included in an ideal Local Law 69 report, researchers and policy analysts would come up with a long wish list of what data they would like to have access to, as well as strong opinions as to how and from where the data should be obtained. But it is difficult to imagine a law detailing the Local Law 69 report that would cover all the possible methodological issues and allow for flexibility as available data and needs change over time. For example, as the forms of assistance the city offers companies change, so too will the types of information needed to evaluate new deals. The law should be flexible enough to respond to these changes in order to identify needed information in future reports.

Data requirements of Intro. 373-A allows the Methodology Committee to regularly review the content and methodology of the Local Law 69 reports and make recommendations to EDC. The committee would be headed by the EDC president and include a number of representatives from the Department of Finance, the Comptroller's Office, the City Council, and IBO; it also would include two persons whose experience and knowledge in finance, economics, and public policy would add to the Committee's expertise.

IBO strongly endorses the delegating of the responsibility for overseeing details of the Local Law 69 reports to a non-partisan group able to draw upon existing expertise in the city. We

believe such a committee will give the Council the flexibility to efficiently respond both to problems and new needs that may be identified, without creating an overly detailed and burdensome legislative scheme. Such a panel would address not only content, but methodology—improving the consistency, completeness and documentation of the data reported. It also might be able to uncover ways that Local Law 69 reports could be compiled more efficiently without compromising quality.

Intro. 373-A also attempts to specify what sorts of employment data is to be presented in the report. Data for the smallest deals would be aggregated and reported in summary tables, which would be useful to the Council, IBO, or anyone else seeking to evaluate the full scope of the city's business retention/economic development activities without greatly lengthening the report. The legislation would mandate reporting the number of jobs each firm is contractually obligated to create or retain in the city. This addresses a concern we had with the first draft of the legislation where the distinction between jobs created and jobs retained was not sufficiently identified. The Intro. also requires information about the residency of employees (city or not) at project sites—information which significantly affects the economic and fiscal benefits derived from any project. The Intro. also dictates a better method for calculating the additional property tax revenues resulting from city assistance to firms—a change that is critically important.

Included in IBO's 2001 report were a number of other recommendations, many of them concerning specific, technical issues of how fiscal costs and benefits are calculated in the Local Law 69 report. We trust that the proposed Methodology Committee would tackle our concerns in these matters successfully. And we hope the process of different parts of city government working together with outside experts and EDC to consider how best to evaluate economic incentive projects will lead to a better understanding of economic development issues by all parties concerned.

Thank you. I would be happy to answer any questions.