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Free New York News Alert No. 10

Comptroller's Reports Prove IDAs Must be Abolished

By James Ostrowski

May 25, 2006

Abolishing Industrial Development Agencies was part of the initial Free Buffalo package of proposals in 2004-5.¹

Subsequently, we issued [News Alert No. 6](#)—"Public Authorities Have Failed the Public." That report stated:

It is time to recognize that the authority system of public administration in New York has failed. . . . The authority system failed because authorities are not subject to the discipline of the marketplace *or* the ballot box. When things go wrong, those in charge are neither voted out of office nor do they lose their investment. . . . authorities, like all government agencies, are bureaucracies, that is, organizations governed by rules and not by the desire to earn profits by satisfying customers. Authorities share with other government agencies all the defects of bureaucratic management but have one major additional defect: you can't vote the managers out of office.

¹ http://www.speakupwny.com/article_1948.shtml (scroll down).

This much can be said with certainty today: get rid of the IDAs (Industrial Development Agencies). They are unnecessary, unproductive, wasteful and a violation of the concept of equal protection of the laws—facts which, in a less decadent political climate, would be obvious to all.

Well, the political climate in New York is getting less decadent all the time as evidenced by two reports last week by the State Comptroller Alan Hevesi:

- [Industrial Development Agencies' Project Approval, Evaluation and Monitoring Efforts](#)
- [Industrial Development Agencies in New York State: Background, Issues and Recommendations](#)

The *substance* of these reports fully supports Free New York's position that IDAs should be abolished. If the *concluding recommendations* of the reports do not say as much, that's a mystery only the Comptroller's office could explain.

These reports, taken together, offer the following facts and inferences:

- IDAs generally underproduce on promised job creation.
- Both IDAs and their clients keep poor records.
- This prevents *any* reasonable cost-benefit analysis of their activities.
- IDAs don't "recapture" tax breaks when companies fail to create new jobs.
- There is no unbiased study that demonstrates that IDAs accomplish their stated mission of improving the economy of New York.
- IDAs *do* consume considerable economic resources in personnel, independent contractors and labor costs.
- IDAs shift the tax burden from their clients to the vast majority of citizens who are not their clients.

These reports are a devastating critique of IDAs in every aspect of their activities.

When one turns to the recommendations of these reports, one expects to read: *The 36-year experiment with IDAs has been a failure. No one has or can prove their worth. Abolish them!*

Instead, a series of dubious reforms are proposed. None will work because none creates *incentives* for the IDAs to do what they are supposed to do: improve the economy. The simple fact is that IDAs are very good at closing development deals because that's

the trigger for getting paid a percentage of the deal as their fee. Once they are paid, they have little financial incentive to follow-up with their clients to see if they have fulfilled their job-creation projections.

Statewide, IDAs spend over \$90 million shifting \$388 million in taxes from a small number of businesses, mostly larger ones, and onto all state taxpayers, *without any proof that this is helping the economy*. Not included in this figure are costs such as delays in development projects caused by bureaucratic inertia and paperwork, and the costs of clients maintaining records (haphazardly).

Simple math tells us that if we took the \$90 million the IDAs take from developers to save them \$388 million in taxes, the total cost of IDAs is \$478 million annually (based on 2004 figures). Abolishing IDAs could return nearly half a billion dollars to New Yorkers each year in the form of across-the-board tax cuts and other savings. Those funds would themselves stimulate economic activity and employment. The difference is that this stimulus would be *market-driven*—awarding the most efficient entrepreneurs--as opposed to the IDAs *politically-driven* investment decisions that reward the politically-shrewd and well-connected.

IDAs distract our attention from the real work that needs to be done to revive the New York economy: reducing the cost of state and local government. New York government spending is at least twenty percent higher than Pennsylvania's.² Twenty percent of New York's state and local spending (about \$190 billion) is about *\$38 billion!* Thus, in terms of making New York competitive with Pennsylvania, not to mention Texas, North Carolina, India, and China, our IDAs are inconsequential. Their main effect is to *dampen support for generalized tax cuts* among influential business leaders who might otherwise lead the charge for such cuts. IDAs are thus serving to *prop up the stagnant status quo* in New York's political economy.

Summarizing a 1992 report by State Senator Franz S. Leichter, the Comptroller's second report cited above states, and Free Buffalo agrees:

“IDAs routinely provide support to projects that would have been completed without such assistance; existing relationships between developers and IDAs often determine which projects are granted assistance; politically connected contractors, consultants, attorneys, and IDA board members similarly benefit from and determine which applications for IDA assistance are approved; piracy is commonplace; and IDAs, whose fees are based on a percentage of project-related bond issues, are induced to support large projects.”

Would a private corporation suffer a failed division like the IDAs for 36 years?

² The Tax Foundation estimates that New Yorkers pay 12.9% of income in state and local taxes whereas Pennsylvanians pay only 10.4%. Total state and local spending in New York is at least \$190 billion. Source: <http://www.ppiny.org/reports/jtf2004/stlocalspending.htm>