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**Authorities Budget Office**  
**Review of Accuracy of IDA Projects Reported**  
**Hudson Industrial Development Agency**  
**July 14, 2015**

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The Authorities Budget Office (ABO) is authorized by Title 2 of the Public Authorities Law to review and analyze the operations, practices and reports of public authorities, to assess compliance with various provisions of Public Authorities Law and other relevant State statutes, and to make recommendations concerning the reformation and structure of public authorities. The ABO is undertaking a series of reviews of industrial development agencies to determine if each agency is accurately reporting project information in the ABO's Public Authorities Reporting Information System (PARIS) including financial assistance provided to projects and their employment impact.

We reviewed project data to evaluate whether information reported by the Hudson Industrial Development Agency (IDA) was accurate and verified by supporting documentation. We also interviewed IDA officials to obtain information on procedures followed. The results and recommendations of our review were discussed with select IDA board members.

**Background**

The Hudson Industrial Development Agency (IDA) was created in 1975 under Section 902-b of General Municipal Law. The IDA's mission is to attract businesses to and retain existing enterprises in the City of Hudson to increase employment opportunities.

The IDA is governed by a seven member board of directors appointed by the Common Council of the City of Hudson. Currently, one position is vacant and the remaining board members are individuals with vital roles in city administration: the Mayor, City Treasurer, City Planning Commission Chairman, City Majority Leader, City Minority Leader and the City Assessor. The IDA does not have any employees. An IDA board member performs bookkeeping for the IDA and as City Treasurer is responsible for distributing PILOT payments to taxing jurisdictions. The IDA board contracted with a certified public accounting firm in 2014 to prepare year-end financial statements and for PARIS reporting, and paid \$1,570 for these services.

For 2014, the IDA reported one project that received \$121,480 in property tax exemptions and made \$140,429 in payments in lieu of taxes (PILOTs). The IDA reported that the project was expected to create and retain 10 jobs, and that the project had created or retained 5 jobs through December 2014.

## Review Results

The IDA correctly reported that it had no staff since all functions are performed by board members or obtained under procurement contracts. The IDA had one active project in 2014 (Hudson Terrace) but information for this project was not always reported accurately by the IDA. The differences between the amounts reported and the supporting documents are due to the IDA board misunderstanding the information that should be reported. For example, the total project costs were identified as \$18.6 million, but since the project owner only needed to obtain a \$5 million mortgage (which was the basis for mortgage recording tax exemptions) the IDA incorrectly reported the amount of mortgage as the project costs. The IDA has a lease agreement in place with Hudson Terrace and received rental payments of \$7,314 in 2014 under this agreement. However the IDA incorrectly reported the amount of PILOTs received from the project in 2014 as lease revenue.

<b>Hudson Terrace Project Information Reported for 2014</b>			
<b>PARIS Fields</b>	<b>Reported in PARIS</b>	<b>Supporting Documentation</b>	<b>Difference</b>
Project Costs	\$5,005,000	\$18,644,823	(\$13,639,823)
Annual Lease Payment	\$140,428	\$7,314	\$133,114
Sales Tax Exemptions	\$0	\$0	\$0
Mortgage Recording Tax Exemptions	\$0	\$0	\$0
Total Property Tax Exemptions	\$121,480	\$119,646	\$1,834
Total PILOTs Due	\$140,428	\$140,428	\$0
Total PILOTs Paid	\$140,429	\$140,428	\$1
# of FTEs before IDA Status	5	5	0
# of Jobs to be Created	5	0	5
# of Current Jobs in 2014	5	6	(1)

The IDA also reported property tax exemptions for 2014 incorrectly in PARIS. This occurred because the IDA used incorrect school tax rates to calculate property tax exemptions. This project was to renovate a multifamily housing project, and according to the project's PILOT agreement, the amount of the PILOT is based on a portion of net rental income. The PILOT payments are to be distributed to the affected taxing jurisdictions using tax rates specified in the PILOT agreement. However, the IDA used incorrect school tax rates for this allocation and as a result, from 2011 through 2014 the IDA over allocated a total of \$8,532 to the school district and under allocated \$6,000 to the City of Hudson and \$2,532 to the county. IDA officials indicated that they will correct this variance.

While the Hudson Terrace project was approved by the IDA and received tax exemptions in 2010, the IDA did not report the project until 2014. As such, the IDA never reported the \$62,652 of mortgage recording tax exemptions the project received

in 2010 and the \$238,824 in sales tax exemptions received from 2010 through 2011. Once the IDA reported the project in 2014, it failed to report the sales and mortgage recording tax exemptions received by Hudson Terrace in prior years and as a result, failed to publicly disclose over \$301,000 of IDA financial assistance received by the project.

The IDA also failed to collect annual employment data from the project owner once the financial assistance was provided. As a result of our inquiries, the IDA contacted the Hudson Terrace owner to obtain the employment numbers for 2014, but entered this information erroneously in PARIS.

As indicated, the IDA has a lease agreement in place with Hudson Terrace, which stipulates that the annual rent payment increases by the annual increase in the cost of living. However, the IDA used a formula other than that stipulated in the lease agreement to calculate the amount of the rent owed. This resulted in the project owner paying a total of \$466 less than required for 2011 through 2014. IDA officials indicated that they will be correcting this error in the coming year.

### **Economic Development Activity**

Although the IDA reported that there were no active projects in 2013, the independent auditor reported that there were six projects that had PILOT agreements with the IDA during 2013, including the Hudson Terrace project. We reviewed the five other projects to determine whether they were receiving financial assistance from and should be reported by the IDA.

All six of the projects are similar, consisting of affordable housing facilities within the City of Hudson. The terms of the PILOT agreements were also similar in that PILOT payments are based on a portion of net rental income. This is different than typical IDA projects, which generally have PILOTs based on assessed property values. Four of the projects were with redevelopment companies organized under Article V of Private Housing Finance Law, and one project was owned by the City of Hudson Housing Authority. These five projects receive property tax exemptions under section 125 of Private Housing Finance Law, and submit PILOT payments to the City. The initial Hudson Terrace project was originally with a redevelopment company and receiving property tax exemptions under Section 125 of Private Housing Finance Law. However, when these tax exemptions were about to expire, the redevelopment company sold the project. The new owner was not a redevelopment company, and received low income housing tax credits from the New York State Division of Housing and Community Renewal and tax exemptions from the IDA to finance improvements to the apartments. As indicated, there were no new jobs expected to be created as a result of the IDA's financial assistance.

The other difference with the Hudson Terrace project is that it provides ongoing lease revenues to the IDA. However, according to the lease agreement, the annual payments are for the IDA's administrative fee. Projects applying for IDA financial

assistance are required to pay administrative fees to the IDA. Since the Hudson Terrace project is the only active IDA project, this rent payment is the IDA's only source of revenue.

The IDA also owns a parcel of property that it holds for potential economic development. However, the IDA does not actively market this property as available for development, and several board members we met with were unaware that the IDA owned the property. The primary economic development entity in the City of Hudson is the Hudson Development Corporation (HDC) a local development corporation established under Not For Profit Corporation Law. In 1983 HDC transferred ownership of the property to the IDA for an IDA project. However, the project was terminated and the IDA has held the property since 2009.

In addition to HDC, there are two other entities that have economic development responsibilities within the City of Hudson. The Hudson Community Development and Planning Agency (HCDPA) was established under Section 640 of General Municipal Law as an urban renewal agency and provides grants and loans for various development activities. The Columbia County Industrial Development Agency provides financial assistance to economic development projects in the form of proceeds from bond issuances, and sales, property and mortgage recording tax exemptions. The Columbia County IDA reports that it currently has three projects located in the City of Hudson that have created 308 jobs and generated \$113,220 in PILOTs in 2014.

Since the IDA has only one active project, the project's purpose is to provide low-income housing and not to create jobs, similar projects are administered directly by the City, the IDA is not actively marketing the property it owns for economic development, and other economic development entities are serving the City of Hudson, we question whether the IDA is needed. Section 882 of General Municipal Law states that when all of the bonds or notes issued by an IDA have been redeemed or cancelled and all straight lease transactions have been terminated, the IDA ceases to exist and its rights, titles and interest and all obligations and liabilities are to vest in and be possessed by its sponsoring municipality. The IDA has no outstanding debt, and the existing lease and PILOT agreements could easily be transferred to the City, since the City already administers similar agreements.

In March 2011 the IDA board considered the possible dissolution of the IDA, noting that the City could continue to administer the IDA's PILOT agreement and that the Columbia County IDA could take over the IDA's duties. However the board has not taken any formal action to begin the process of dissolution since. Given that the only existing project is a residential housing facility that is not intended to create jobs, and that other economic development entities serve the City of Hudson, it would be appropriate to dissolve the IDA.

## **Conclusion**

We conclude that there is no demonstrable need for the IDA to continue in existence. The potential economic development functions provided by the IDA are being accomplished by other entities within the City of Hudson and any financial assistance benefits in the form of tax exemptions can be provided by the Columbia County IDA. However, as long as the IDA remains active, it should take appropriate action to correct the PILOT allocation and lease revenue errors that occurred during 2011 through 2014 as identified in the report, and obtain and ensure that all data is accurately reported in PARIS.