
Authorities Budget Office
Review of Activities and Expenditures
City of Kingston Local Development Corporation
October 18, 2013



Local development corporations (LDCs) are not-for-profit corporations incorporated pursuant to Section 1411 of Not for Profit Corporation Law. The general statutory purpose of an LDC is to reduce unemployment, promote and maintain employment opportunities, aid communities attract new industry or to encourage the development or retention of existing industries, and lessen the burdens of government and act in the public interest. In furtherance of these public purposes, an LDC has the power to construct and rehabilitate industrial or manufacturing facilities to be used by others; provide grants and loans; borrow money; issue debt; and acquire, sell or lease real property below market value. Any county, city, town or village in New York State, alone or in combination, may cause the incorporation of a LDC by public officers or private individuals.

Section 2(2)b of Public Authorities Law defines local authorities to include not for profit corporations affiliated with, sponsored by, or created by a county, city, town or village government. By law, the operations, practices and reports of these LDCs are subject to the review and analysis of the ABO. The ABO is undertaking a series of reviews of selected LDCs across the state to develop a better understanding of the public purposes for which each LDC was formed, and to provide insight into how these corporations function, how each relates to the local government for whose benefit it was created, and the types of activities on which the LDC expends public funds.

These reviews are intended to focus on the following analytical issues:

- The specific mission of the LDC and the purpose(s) for which it was formed.
- The LDC's corporate governance structure, including its relation to the municipal government and other local authorities.
- The sources of LDC funding.
- The programs, services and public objectives supported by LDC funding.
- Activities of the LDC, if any, that may be inconsistent with or tangential to its core mission.

This report reviewed the extent to which the activities and expenditures of the City of Kingston Local Development Corporation (KLDC) are consistent with and advance the public purpose for which it was formed.

Mission of the City of Kingston Local Development Corporation

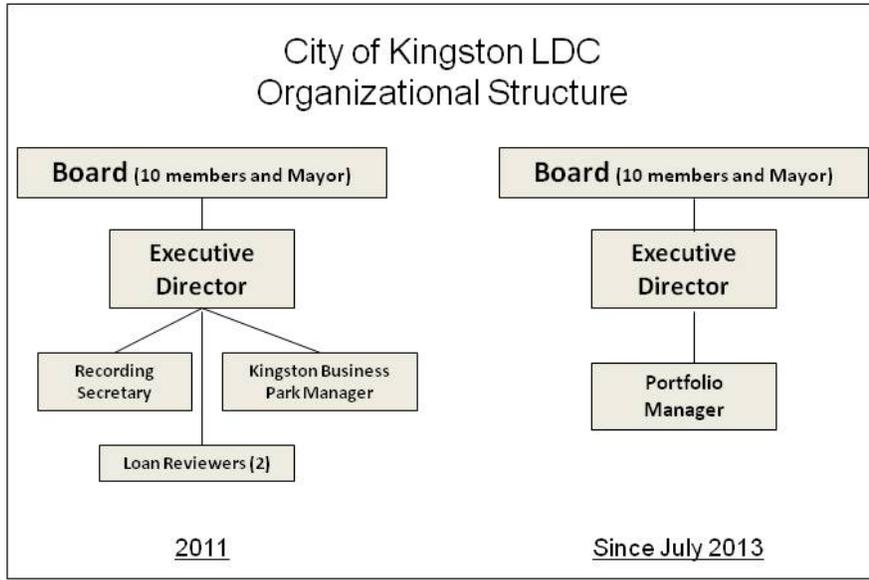
The City of Kingston Local Development Corporation (KLDC) was incorporated in 1994 under Section 1411 of Not for Profit Corporation Law. As articulated in its Certificate of Incorporation, the core mission of KLDC is to reduce unemployment, promote and provide for additional employment, encourage the development and retention of industry, and attract new industry to the area. This mission is consistent with the statutory purposes of LDCs. KLDC carries out its mission by providing loans to businesses and operating a business park. KLDC has also undertaken activities on behalf of the City that appear unrelated to its primary economic development purpose.

KLDC Corporate Governance Structure

According to its bylaws, KLDC is governed by an eleven member board of directors that includes the Mayor as an ex-officio member. The remaining ten members are appointed by the Mayor and are to be comprised of local business and community representatives. The bylaws designate the Mayor as President of the board, and also specify that the Mayor is to act as the chief executive officer of the Corporation. However, KLDC does not adhere to this provision of its bylaws and instead has designated someone else as the chief executive officer.

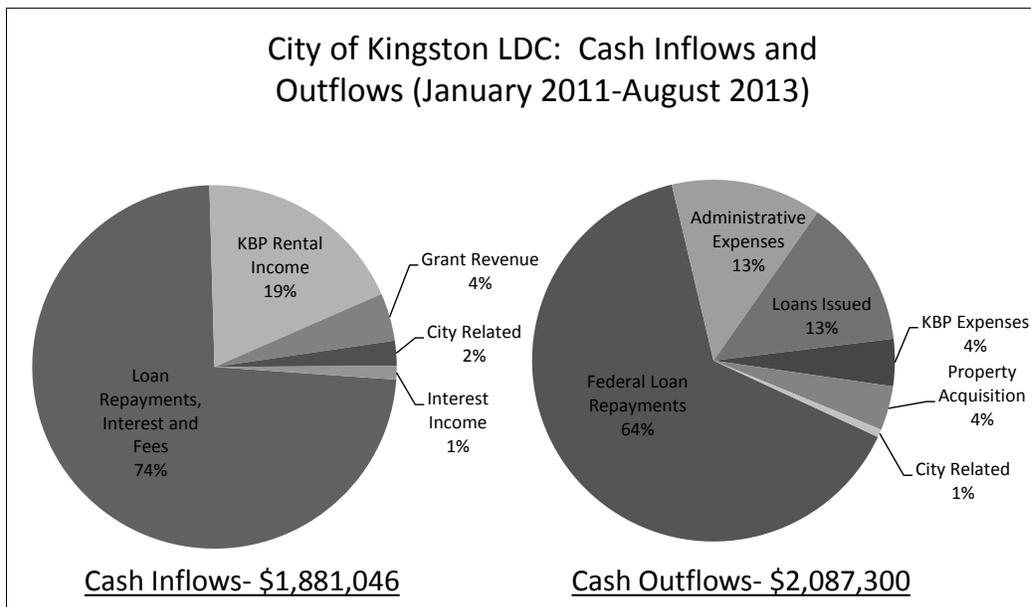
The KLDC is staffed by City employees. As of July 2013, there were two staff: the Executive Director and the Portfolio Manager. The Executive Director is responsible for managing the Kingston Business Park, maintaining the financial records of KLDC, and recording board meeting minutes. The Portfolio Manager is responsible for reviewing loan applications for completeness, maintaining financial records regarding loans, and monitoring the provisions of the loan agreements. Applications are reviewed and approved by a loan committee comprised of KLDC board members. Between January 2011 and July 2013, these functions were being performed by as many as five different City employees.

KLDC has historically reimbursed the City for a portion of the salaries of City employees based on their time spent on KLDC activities. However, KLDC does not reimburse the City for the Portfolio Manager's time as loan activity is limited. For the period 2011 through 2013 KLDC paid the City \$144,789 for KLDC staff functions.



KLDC Finances

From January 2011 through August 2013, KLDC received over \$1.8 million consisting of \$1.3 million in loan repayments, interest, and fees; \$355,000 in rental income from the Kingston Business Park; \$80,000 in grant revenue; \$41,700 for City related activities, projects and events; and \$23,000 in interest income. KLDC's total cash outflows during this period were over \$2 million. This includes \$1.3 million in repayments for a federal loan; \$279,900 for administrative expenses; \$275,000 in new loans issued; \$88,000 for costs related to the Kingston Business Park; \$82,500 to acquire property; and \$14,700 for its City related activities.



KLDC Mission Driven Activities

KLDC's primary economic development activity consists of providing loans to businesses using funds that were originally capitalized by federal funds. In addition, in 2012 KLDC received an \$80,000 grant from the City to provide loans. For the period January 2011 through August 2013, KLDC made three loans totaling \$275,000. Two loans were for property acquisition and the other was for equipment and working capital. KLDC has five different federally funded loan programs, each with its own funding restrictions and eligibility criteria: Community Development Revolving Loan Fund, Kingston Revolving Loan Fund, Section 108 Loan Fund; Kingston-Newburgh Revolving Loan Fund, and Micro Enterprise Program. The three loans issued were from the Community Development Loan Fund and Kingston Revolving Loan Fund.

From January 2011 through August 2013, KLDC received \$1.38 million in loan repayments, interest, and other fees. Proceeds from loan repayments and interest were offset by a \$1.34 million repayment of principal and interest on the Section 108 loan. As of December 2012, KLDC had 44 outstanding loans with an original value of \$4.2 million. These loans were made with the expectation that the recipients would create 147 jobs – or one job created for every \$28,900 in loan value.

KLDC also owns and manages the Kingston Business Park (Park). The Park consists of five parcels. Two parcels are currently leased to businesses. KLDC does not actively market the remaining vacant parcels. From January 2011 through August 2013 KLDC received rental income of \$355,000 and paid \$88,000 for expenses related to maintenance, utilities, property taxes, and insurance. During this period KLDC paid land taxes totaling \$938 for the park. Although KLDC is exempt from paying property taxes, it stated these payments are for road maintenance and other City costs associated with the property surrounding the unoccupied parcels. KLDC stated it will continue to pay these taxes until the properties are leased.

Other KLDC Activities

KLDC is involved in other activities that appear secondary to the core economic development purposes for which it was formed. For example, in January 2013 KLDC acquired a building in the City for \$1 from a private owner. This property was purchased with the expectation that it would be used by the City as a police station, rather than developed and marketed for private commercial use. The Mayor of Kingston indicated that this purchase would help to improve public safety in the area, which would have a direct correlation to economic development. During 2012 and 2013, KLDC paid \$82,500 for expenses related to this project such as closing costs, taxes, insurance, utilities, and consultant fees. It is unclear why KLDC needed to purchase the building other than to defray expenses that would have been incurred by the City to establish a police station in this area.

In addition, KLDC maintains funds for the City's Historic Kingston Lighthouse (Lighthouse) which serves as a navigation aid and museum. A separate bank account is controlled by KLDC for all Lighthouse related transactions. However, a separate Lighthouse Commission manages Lighthouse operations, including determining how funds are spent. From January 2011 through August 2013, KLDC received \$33,544 for the Lighthouse, which consisted of a \$27,000 Environmental Protection Fund grant provided by the City for a rehabilitation project that occurred in 2008, over \$1,500 in merchandise sales, and payments from the City. During this period, KLDC paid \$5,182 for utilities and maintenance of the Lighthouse. It is unclear why this financial relationship is necessary or supports the job creation mission of the KLDC.

KLDC also acts as a conduit for the purpose of receiving tax deductible donations used to fund various City projects and events. In 2012, KLDC spent \$6,162 to improve City property used as a farmer's market, and received a \$5,000 donation to offset these costs. The City provided no additional funding to cover the project costs. KLDC also received \$1,075 in donations for a 'Great Streets' event in 2012 and used the funds to provide entertainment and food. No additional funds were provided by the City of Kingston. Other than to receive tax deductible donations there appears to be no mission driven reason for the KLDC to be involved in organizing and running this event.

Conclusion

KLDC's purpose as a local development corporation is to maximize employment and create employment opportunities. Based on our limited scope review, it appears that the majority of KLDC's activity is related to this public purpose. Nevertheless, KLDC is also engaged in activities that are not central to its core mission, such as managing City projects, funds and events. The KLDC board should review its involvement in these additional activities and determine whether such activities best serve to advance economic development and job growth in the City of Kingston.