



## **Operational Review**

# **Schenectady County Economic Development Entities**

*December 20, 2011*

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## Executive Summary

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### **Purpose and Authority:**

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. This includes rendering conclusions and opinions regarding the performance of public authorities and assisting these authorities improve management practices and the procedures by which their activities and financial practices are disclosed to the public. Our operational review of the economic development public authorities of Schenectady County was performed between May and November of 2011 and was conducted in accordance with our statutory authority and compliance review protocols which are based on generally accepted professional standards. The purpose of our review was to evaluate the overall effectiveness of the approach taken for economic development in the county and to assess the need for seven authorities to implement this approach. The report also makes recommendations to improve the operating practices of the authorities.

### **Background Information:**

In addition to the Schenectady County Department of Economic Development and Planning, and the City of Schenectady Department of Development, seven local authorities have been created for economic development purposes in the county. These seven local authorities are: Schenectady County Metroplex Development Authority (Metroplex), Schenectady County Industrial Development Agency (County IDA), City of Schenectady Industrial Development Agency (City IDA), Town of Rotterdam Industrial Development Agency (Rotterdam IDA), Schenectady Local Development Corporation (SLDC), Schenectady County Community Business Center (CBC), and Schenectady County Capital Resource Corporation (CRC).

Metroplex is the most significant of the seven authorities involved in the economic development process in the County. The IDAs and other entities, although overseen by independent boards, play a subordinate role to Metroplex. Each IDA has contracts that result in Metroplex administering and managing its operations and Metroplex also provides funding to the other authorities.

**Results:**

Our review found that the mission of all seven local authorities is similar: to create jobs and spur economic development, increase property values and expand the local tax base, and increase sales tax revenues. To accomplish their missions, the authorities provide a variety of financial assistance that includes issuing tax exempt debt and providing exemptions from mortgage and sales taxes, property tax abatements, grants, and loans. However, no one local authority can provide all forms of assistance. Based on a review of unemployment, sales tax, and property value data for the County, it appears that the authorities are relatively successful in accomplishing their missions, although employment results are not as positive.

We conclude that these accomplishments are not a result of the structure in place. Instead, we believe that the residents of Schenectady County could be equally and more cost-effectively served by fewer authorities, since multiple authorities currently provide similar financial assistance to projects. In addition, the Rotterdam IDA no longer has outstanding bonds, and therefore has ceased to exist under Section 882 of General Municipal Law. We are concerned that board members, Town of Rotterdam officials, and any businesses receiving financial assistance from Rotterdam IDA are at risk for actions taken subsequent to 2009.

Although authority officials described the existing seven authority structure as a unified economic development team, we found such a claim to be overstated. The seven authorities do not share a common application for financial assistance, and relevant information is not shared among all of the authorities involved in a project. The coordination that does take place occurs because Metroplex administers the IDAs and CRC and its staff are involved with all economic development projects. We also found that there is no comprehensive economic development plan in place that is annually reviewed and updated, and that Metroplex has not developed a five-year capital projects plan, as required by its enabling legislation.

We identified instances where the involvement of multiple authorities has led to the inefficient allocation of resources. For example, over \$600,000 of economic development funds have been provided to the CBC since 2003 for the CBC to meet its operating costs although the CBC no longer fulfills its original purpose. In another instance, over \$25,000 is paid annually to municipal and authority staff, in addition to their full time salaries, to provide administrative and operational services to

the various economic development authorities. These services are generally provided during the individuals normal work day.

We also are concerned that IDAs may be providing inappropriate types of financial assistance, since it appears that the IDAs have awarded economic development grants. The types of financial assistance that IDAs are authorized to provide are enumerated in General Municipal Law, and the provision of grants is not included.

Lastly, we noted that records and information maintained by the various authorities are incomplete and poorly managed. As a result, we were unable to accurately determine the number and amount of loans provided by the SLDC, and identified other instances where records contained inaccurate data. In addition, reports required to be filed pursuant to Public Authorities Law are not submitted timely and often contain inaccurate information.

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## Introduction and Background

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Local economic development projects in New York State are undertaken primarily by industrial development agencies (IDAs) and local development corporations (LDCs). IDAs are authorized pursuant to Article 18-A of General Municipal Law. There are currently 114 active IDAs throughout the State. LDCs are not-for-profit organizations often formed by municipalities or IDAs. The ABO has identified more than 220 LDCs active throughout the State that are under the control of a sponsoring municipality. Separate IDAs and LDCs have been created by nearly every county in the State, while other IDAs and LDCs have been established at the sub-county level by many cities, towns and villages. This creates overlapping and duplicative areas of responsibilities that contributes to competition among the IDAs, “comparison shopping” by project applicants looking for the most favorable financial assistance package, and a potentially incoherent, and inefficient, economic development policy. While LDCs existed prior to the establishment of IDAs, the creation of LDCs has proliferated since IDAs lost the ability to finance civic facility projects. Many IDAs and LDCs have common board members and share staff.

There has been much discussion whether this economic development model produces the best results. While this approach is based on the premise that economic development is best driven at the local level, questions remain how to structure local economic development decision-making, and how economic development resources can best be used.

Similar to the rest of the State, there are a myriad of organizations involved with economic development within Schenectady County. Schenectady County is the second smallest county by geographic size outside of New York City, yet it has at least seven different local economic development authorities. These authorities are the Schenectady County Metroplex Development Authority (Metroplex), Schenectady County Industrial Development Agency (County IDA), City of Schenectady Industrial Development Agency (City IDA), Town of Rotterdam Industrial Development Agency (Rotterdam IDA), Schenectady Local Development Corporation (SLDC), Schenectady County Community Business Center (CBC), and Schenectady County Capital Resource Corporation (CRC). In addition, the County’s Department of Planning and Economic Development and the City of Schenectady’s Department of Development also have economic development responsibilities.

This seven-authority structure is dominated by Metroplex, which is not an IDA or an LDC. It is a public authority unique to Schenectady County that was created to develop and revitalize specific areas within the County. Based on audited financial statements and federal tax reports, for 2010, Metroplex generated approximately \$7.3 million in revenue. The other 6 entities reported approximately \$500,000 in total revenue. Only Metroplex and CRC had operating

surpluses for 2010; none of the other five authorities generated sufficient revenues to meet their operating costs, incurring a total of nearly \$350,000 in operating losses.

The financial assistance provided by these authorities generally consists of some combination of tax exempt financing, property and sales tax exemptions and abatements, loans and grants. While no single authority is able to provide all four forms of financial assistance, the same type of financial assistance can be and is provided by multiple authorities.

**The Schenectady County Department of Economic Development and Planning**, according to the County's 2011 adopted budget, is responsible for coordinating job creation and retention activities throughout the county. The Department has eight staff, and also provides support functions to Metroplex.

**The City of Schenectady Department of Development**, according to the City's 2011 adopted budget, has 10 staff and is responsible for long-range planning and economic development in the City, as well as the day to day administration of various city, State and federally-funded programs geared towards the physical and economic renewal of the City.

**Metroplex** was created in 1998 to undertake economic development activities in downtown Schenectady and along the corridors that connect to downtown. The Authority is governed by an 11 member board appointed by the County Legislature, six of which are nominated by various local officials. Metroplex receives a portion of the sales taxes generated in the County, and provides financial assistance primarily in the form of loans and grants, but can also provide tax exemptions for specific types of projects. Metroplex has five staff consisting of an Executive Director, Director of Development, Finance Director, and full and part time support staff. The Schenectady County Commissioner of Economic Development and Planning currently serves as Chairman and chief executive officer of Metroplex.

**The Schenectady County IDA, the City of Schenectady IDA, and the Town of Rotterdam IDA** were established between 1975 and 1978 to stimulate economic development and job creation in their respective communities through low cost financing and tax exemptions. Each has its own board of directors and governing structure. The IDAs generate revenues from project fees and interest income. In addition, each IDA has contractual agreements that result in Metroplex providing administrative services and the Executive Director of Metroplex serving as the administrative director for each of the IDAs.

**The Schenectady Local Development Corporation (SLDC)** was established in 1978 to provide low interest loans to businesses for the purpose of increasing employment and attracting new businesses to the City. The SLDC is currently governed by a 13 member board that is appointed by its members. Revenues for

the operations of the SLDC come from interest payments on loans and other administrative fees generated by the different loan funds it administers. However, over the past several years the SLDC's funds have decreased significantly and may no longer be sufficient to support its operations.

**The Schenectady County Community Business Center (CBC)** was established in 2000 to manage an incubator program for new businesses within the county. The CBC is governed by an eight member board appointed by its directors. Several years ago the County decided to no longer fund the administration of the CBC and the incubator program. The CBC now functions as a landlord, on behalf of the County, and rents the county-owned building to nine businesses, in addition to some county departments. About \$100,000 in annual rent is received from these tenants and remitted to the County. The CBC is responsible for its payroll and some operating costs, but without a dedicated revenue stream, it is reliant on subsidies from Metroplex, the SLDC and the County IDA. The Executive Director of the CBC is Metroplex's Director of Development.

**The Schenectady County Capital Resource Corporation (CRC)** was established in 2010 to issue low interest financing for non-profit entities. This financial assistance had been provided by the IDAs prior to the expiration of their statutory authority to issue debt for civic facilities. The CRC is governed by the same seven member board that comprises the County IDA. The CRC has no employees, but Metroplex staff provide administrative services.

In addition to these seven local authorities, three Business Improvement Districts (BIDs) were formed within Schenectady County. BIDs are public-private partnerships in which property owners in a well-defined geographic area pay annual assessments that support services such as supplemental street and sidewalk cleaning, promotional events, enhanced security, or improved landscaping. The County has established BIDs for downtown Schenectady, upper Union Street, and the Village of Scotia.

## ***Compliance Review Objectives***

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. Our operational review was conducted to evaluate the overall effectiveness of the multi-authority approach taken regarding economic development in the County, as well as make recommendations to improve each authority's business practices.

## ***Compliance Review Scope and Methodology***

Our compliance review was conducted between May and November 2011, and covered select authority operations for the period 2005 through 2011. To perform our review we relied on the following documentation and data sources:

- Contractual agreements between the various authorities in the County
- Board meeting minutes
- Project documentation
- Project review and approval processes
- Revenues, expenditures and outstanding bond obligations
- Independent financial audits and other reports
- Annual and Budget Reports required by the Act
- Policies and procedures required under the Act, Public Authorities Law, General Municipal Law, and Public Officers Law
- Policies and procedures indicative of good governance practices

In addition to reviewing documents and records, we interviewed Metroplex management and board members from each of the authorities; attended authority board meetings; and performed other testing we considered necessary to achieve our objectives. Our report contains recommendations to improve the effectiveness of the operations of the authorities and economic development in the county. The results and recommendations of our review were discussed with appropriate officials. As Metroplex staff administer most of the authorities, they coordinated the responses from the individual authorities, and these responses are reflected in this report where appropriate.

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## Review Results

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### Results Achieved by the Seven Economic Development Authorities

As the following narrative and table illustrates, the economic development interests of every city and town within Schenectady County is served by multiple local authorities.

Municipality	Authority with Economic Development responsibility						
	Rotterdam IDA	City IDA	County IDA	LDC	Metroplex	CBC	CRC
Schenectady City		X	X	X	X	X	X
Duanesburg			X		X	X	X
Glenville			X		X	X	X
Niskayuna			X		X	X	X
Princetown			X		X	X	X
Rotterdam	X		X		X	X	X

**Metroplex** was created to implement a comprehensive economic development program along the Route 5 and Route 7 corridors of the County, especially in the downtown region of the City. Its goal is to increase sales tax collections and increase property values in downtown, and create and retain jobs. Since its creation, the Metroplex service area has expanded to include 60 percent of the County, and some portion of every municipality within the County. Metroplex is funded with local sales tax revenue, and is able to provide financial assistance to projects in the form of grants and loans to businesses, as well as tax exemptions for specific types of projects. Based on information provided to the ABO, Metroplex has approved over \$138 million in direct financial assistance to 171 projects and programs since 1998. As of our review, Metroplex had 44 active projects that were awarded \$31.5 million in funding. Metroplex does not consistently track job data for all of its projects, but reported that 27 of its projects – not all of which are currently active -- created an additional 1,900 jobs as of June 2010.

Metroplex has completed a significant amount of renovation and rehabilitation that has improved the appeal of downtown. Resources have been dedicated to improving the downtown State Street corridor, transforming it into an arts and entertainment district while also encouraging businesses to locate or re-locate in the area. Metroplex has provided over \$2.4 million for a downtown façade program, through which businesses receive matching grants to improve the appearance of their buildings. In addition, major redevelopment is taking place along the Broadway entrance to downtown, converting vacant parcels and abandoned buildings into modern commercial facilities.

**The Schenectady County IDA** reported 26 active projects as of December 2010, with a total project value of \$246.6 million. The IDA issued \$74.2 million of

debt to finance eight of these projects, and entered into straight lease arrangements with the remaining 18 projects. The County IDA reported that 15 of the projects received a total of \$3.4 million in tax exemptions and created 2,570 jobs, while 14 of these projects made PILOT payments to the County and other taxing jurisdictions totaling over \$1.8 million. Since 2003 the IDA has had an agreement for Metroplex to provide administrative services to the IDA.

**The City of Schenectady IDA** reported 38 active projects as of December 2010 with a total project value of \$340.8 million. The IDA issued \$91.8 million of debt to finance 11 of these projects, and has lease agreements with the other 27 projects. The IDA reported that 19 of the projects received over \$2.2 million in tax exemptions and created 1,582 jobs, while 15 of these projects made PILOT payments totaling over \$1.2 million. Since 2002 the IDA has had an agreement for Metroplex to provide administrative services to the IDA.

**The Rotterdam IDA** reported eight active projects as of December 2010, with a total project value of \$39.5 million. None of these projects were financed with bond proceeds, but did receive other forms of financial assistance, such as tax exemptions totaling \$2.2 million in 2010. Seven of these projects made PILOT payments, totaling \$1.5 million in 2010. A specific area of focus was the vacant Capitol Plaza site. As a result of financial assistance provided by both the Rotterdam IDA and Metroplex, the site was redeveloped to house both a sports-themed restaurant and a bank, and create 25 full-time jobs and 30 part-time jobs. Overall, the IDA reported that its eight projects led to the creation of 124 jobs. During 2010, Rotterdam IDA was staffed by two Town of Rotterdam employees, but also entered into an agreement that stipulates that its administrative services will be performed by the County IDA. Since the County IDA has no employees, these services are provided by Metroplex staff.

Section 882 of General Municipal Law states that whenever all of the bonds or notes issued by an IDA have been redeemed or cancelled, 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. Rotterdam IDA had issued debt for a project that was approved in 1993, and these bonds were fully retired in 2009. Since Rotterdam IDA no longer has outstanding bonds or notes, the IDA is subject to Section 882. We are concerned that board members, Town of Rotterdam officials, and any businesses receiving financial assistance from Rotterdam IDA could be at risk for actions taken subsequent to 2009 and any such actions could be a nullity as a matter of law. Authority officials indicated that they are reviewing the status of the Rotterdam IDA with counsel and auditors.

**The Schenectady Local Development Corporation (SLDC)** was created in 1978 by the City of Schenectady to provide low interest loans to businesses with a goal of increasing employment and attracting new businesses to the City. The loan programs were funded by grants from State and federal agencies. In 2010,

SLDC received approval from the New York State Urban Development Corporation (UDC) to issue loans for businesses located within the County but outside of the City of Schenectady. We attempted to determine the extent of SLDC's loan activity, but authority officials were unable to provide us with reliable data. This issue is presented later in this report. A City employee serves as Executive Director for SLDC while another City employee provides administrative support.

**The Schenectady County Community Business Center (CBC)** was created in 2000 to operate an incubator program for new and start-up businesses, support an educational mentoring program and provide low cost office space in a building owned by the County. The incubator program did enjoy some initial success. CBC was able to assist a few businesses develop and become sufficiently self-reliant to relocate to other locations in the County. The County has since determined that it could not afford to finance the incubator program, and these services are no longer provided. However, the County-owned building is still used to house some County departments, and to provide low cost space to a mix of nine start-up and established businesses. The CBC administers a federally-funded microenterprise loan program, but has not awarded a loan since 2008. For the period 2003 through 2008, the CBC reports awarding nine loans totaling \$360,000 to nine different recipients, resulting in the creation of 20 jobs. A Metroplex employee assists the CBC while a City employee assigned to the SLDC provides administrative support. CBC board members have indicated that the CBC intends to dissolve in the near future, perhaps merging with the SLDC.

**The Schenectady County Capital Resource Corporation (CRC)** was created in 2010 to issue low interest financing for nonprofit and for-profit entities. The CRC also offers mortgage recording and sales tax exemptions. During 2010, the CRC issued \$15.5 million of debt to finance one project. The CRC has no employees, but has entered into an agreement with the County IDA to provide administrative services. Again, since the County IDA has no employees, these services are provided by Metroplex staff as part of its contract with the County IDA.

Metroplex officials, in responding to our draft report, stated that there has been a significant reduction over the years in the number of entities involved with economic development. They stated that there have been several programs and funds that have been eliminated as well as organizations that are no longer funded. While true that these organizations may no longer be actively involved in economic development, the purpose of our review is to focus on the continued need for seven authorities that are currently involved with economic development in the County.

All seven local authorities were formed to create jobs and spur economic development, to increase property values and expand the tax base within the County and to increase sales tax revenues. To gauge the effectiveness of these

economic development authorities, we compared unemployment data from the State Labor Department, and sales tax and property value data from the State Comptroller’s Office for the County, the region, and upstate New York (all counties north of Westchester and Rockland) for 2005 and 2010. We found that the results were mixed: while property values and sales tax revenues in Schenectady County have increased, so too has the unemployment rate for the County.

<b>Percentage Increase from 2005 to 2010</b>			
	<b>Growth in Unemployment Rate</b>	<b>Growth in Property Values</b>	<b>Growth in Sales Tax Revenue</b>
Schenectady County	85%	54%	94%
Region	82%	50%	77%
Upstate New York	73%	40%	70%

As indicated, the unemployment rate increased by 85 percent in Schenectady County from 4 percent in December 2005 to 7.4 percent in December 2010. This compares to an increase of 82 percent in the unemployment rate for the region (from 3.9 percent in December 2005 to 7.1 percent in December 2010), and a 73 percent increase in the unemployment rate for all upstate counties (from 4.7 percent in December 2005 to 8.1 percent in December 2010.) This increase in unemployment is more than likely due to the nationwide recession that has occurred since 2008. However, in regard to unemployment, the economic development authorities in the County do not appear to have been as effective as other economic development organizations in the region or within the State in addressing this recession.

Authority officials provided other data that shows different results. For example, they cite U.S. Census Bureau Data to show that while the employment rate for the County has fallen, the decrease is less than that of the region or upstate New York. They explained that the census data provides a broader picture, rather than just measuring jobs, and also provided data that shows that the annual payroll of employers in the County has increased by 23 percent between 2004 and 2009. This increase is a much higher rate than that of the region (15 percent) or upstate New York (11 percent.) These officials also indicate that the August 2011 unemployment rate for the County was lower than the December 2010 rate we used, and that it is below the State and national average. We reviewed the August 2006 to August 2011 unemployment rates cited by authority officials, and found that while the County unemployment rate increased less than the region’s unemployment rate, the increase was about the same as the upstate counties.

Based on the data from 2005 to 2010, it appears that Metroplex has been relatively successful in its mission. Property values have increased at a rate above that in the region and much greater than the increase in the rest of the

State. Sales taxes have also increased during the period at a much higher rate than the rest of the region or upstate New York. Yet, the economic development data regarding jobs and employment rates are not as consistently positive.

### No Evidence to Conclude that Existing Structure Produced Results

While Schenectady County has achieved some recent economic development success, there is no reason to conclude that seven different authorities were necessary to produce those results. Under current law, the same economic development results could have been achieved with one authority to issue tax exempt debt or provide other forms of tax incentives, and acquire property, and a second authority to fund civic facility and not-for-profit projects and offer grants and loans. Therefore, it is just as probable to conclude that the County would have realized the same level of success with a more streamlined economic development structure that relied on fewer and less redundant organizations. The three IDAs provide various tax exemptions, issue tax-exempt debt for some projects, and negotiate PILOT agreements. Metroplex, SLDC, CRC and CBC provide grants and loans, and certain tax exemptions. This raises the question why are each of these entities necessary.

### Lack of Coordination

Authority officials described the existing economic development structure as a unified economic development team that has saved money and achieved significant results. They characterize the current structure as a planned approach to consolidate operations and streamline the number of economic development agencies in the County. They emphasize that there is substantial coordination between entities as part of the unified economic development team.

However, our review concludes that this structure was not planned. It simply evolved, and that whatever degree of coordination does exist cannot be attributed to a cohesive administrative and programmatic approach to economic development. Instead, this coordination exists because Metroplex staff, under the guidance of the County Commissioner of Economic Development, and in accordance with administrative agreements with the IDAs and CRC, are involved in all economic development projects, regardless of which authority provides financial assistance to a project.

A unified economic development approach would be expected to establish a standard application for financial assistance that is used by all of the authorities. Developers and businesses applying for financial assistance would only need to complete a single form, which could then be presented to the authorities that provide the type of assistance requested. All involved agencies would have information concerning total project costs, the level of financial assistance being requested from each authority, justification for the cost and necessity of the

project, the potential economic impact of the project on the community, and the financial commitment of the applicant.

However, we found that separate applications are used by the various authorities, and that information provided on one application is not always shared with the other involved authorities. As a result, the boards of directors of the various authorities are not provided with and do not review or evaluate the total scope and financial assistance provided to projects. Instead, information provided to the boards, and their subsequent reviews are generally limited to the specific financial assistance requested of the authority, without context of the full scope of the project and the total financial assistance being provided.

For example, one project we reviewed was part of several improvement projects for one area within the City of Schenectady. The project received sales tax, mortgage recording tax and property tax exemptions from the City IDA and loans and grants from Metroplex, as well as a loan from SLDC. The information provided to the Metroplex board for this project identified the estimated cost of the project and the source of funds, but did not reflect the estimated tax exemptions of \$360,000. The summary data provided to the City IDA board did not identify that \$650,000 was provided by Metroplex or the purpose of that funding, but only indicated that Metroplex was participating in the project.

Further, as part of this project, the information provided to the Metroplex board indicates that the business owner was considering relocating the business to another county. Although Metroplex staff told us that this information was discussed with the City IDA board, the information is not included in the project description that was provided to the City IDA board, nor is it included in the City IDA board meeting minutes. It would seem prudent that if a unified economic development team approach was being followed, the same relevant information would be provided to every authority that provides financial assistance to the project.

Contrary to the concept of a unified economic development team, we found that board members of the different authorities do not always understand the roles and functions of the other entities. For example, one City IDA board member stated that the board member was aware of the SLDC, but not its role in economic development. Yet, there are projects that received financial assistance from both the City IDA and the SLDC. We spoke with a County IDA board member who was aware that the County IDA gave money in 2010 to the CBC, but could not recall the purpose for which those funds were given. And an SLDC board member could not explain why the SLDC would provide funds to CBC, since the SLDC was short on funds itself.

## Lack of Formal Planning

Having different authorities responsible for economic development necessitates that a coordinated economic development plan be in place to minimize duplication of effort, ensure resources are used efficiently, and that all entities are working toward a common goal. The County Department of Economic Development and Planning reports in its adopted budget that it is responsible for coordinating job creation and retention activities in the County, however it has not developed or established a county-wide economic development plan. The plans developed by the County Department address only specific areas or functions, such as riverfront revitalization or development of bike paths in the county. Individual municipalities have also developed their own economic development plans, but there is no single plan that reflects a county-wide economic development strategy. Further, Section 2655-c of Public Authorities Law requires Metroplex to develop a rolling five-year capital plan. Metroplex has not updated the plan since it was last prepared in 2003.

Authority officials responded that a plan has been established to remove blight, create jobs, establish business parks and promote smart growth principles throughout Schenectady County. Metroplex staff stated that this plan was developed with input from municipal officials, and identifies the specific projects that need to be undertaken. We compared the projects identified in these documents to the economic development plans established by some of the municipalities, and found that the projects generally did fall within the problem areas identified in the municipal plans.

While the plan identifies specific problem areas to be addressed, it is not a comprehensive or cohesive development plan. The document identifies many vacant properties that need to be developed, but does not identify strategies for accomplishing this, such as determining potential uses or business types for the property, and does not articulate a marketing strategy for attracting developers. Further, the document does not address how the seven authorities are to work together to accomplish the projects. Another objective cited in the document is the expansion of training programs at local colleges to build workforce skills. However, the plan does not identify any projects or specific steps for developing or funding these programs. Authority officials responded that development plans and strategies were prepared in the past, but that they believe it is too expensive and time-consuming to keep these plans current and operational.

Finally, officials stated that the existing plan fulfills the obligation of Metroplex under its authorizing statute. We do not agree, since it does not include many of the components required of the capital plan that are cited in Metroplex's governing statute. For example, the legislation requires that the capital plan include the proposed amount and sources of funding for each project, an explanation of the financial feasibility of the project, and a description of the

impact of the project on the communities' natural resources. None of these aspects are addressed in the plan provided to us.

### Inefficient Use of Resources

We identified instances where reliance on the seven different authorities involved in economic development has contributed to an unnecessary or inefficient use of economic development funds.

- Metroplex provided a \$250,000 grant to the SLDC in 2004 so that the SLDC could establish a revolving loan program. In 2010, the SLDC loaned \$15,000 from this fund to the CBC, in order for the CBC to meet its operating costs. Upon the request of the Metroplex Chair, the SLDC did not require the CBC to repay this loan. A second loan of \$7,500 was provided in 2011. In addition, Metroplex has granted over \$570,000 to the CBC since 2003 and the County IDA granted \$25,000 to the CBC in 2010. In total, over \$600,000 of economic development funds have been provided to the CBC since 2003 to meet its operating costs. These costs consist primarily of payroll related expenses, a significant portion of which is compensation to Metroplex and City employees for administrative services.

Authority officials responded that only a small fraction of the grant proceeds were used for employee compensation, with much of the grant used to support the operations of the CBC. They further clarified that non-payroll operating costs generally consist of professional services such as legal and accounting, insurance costs, and grounds and landscaping. To support this contention, they provided us with detailed financial reports to identify the costs incurred by CBC. However, these reports contain contradictory information. Some indicate that payroll related costs range from 80 percent to 96 percent of total costs, while others exclude payroll related costs altogether.

- BIDs are established under provisions of General Municipal Law, and are created to provide enhanced services within a specific business area. These enhanced services are funded by special assessments on the businesses located within the area. However, we found that since 2001 Metroplex has provided about \$2 million in grants to one BID, with the funds used to subsidize the BID and minimize the assessment on the businesses that benefit from its services. For example, financial data for the BID shows that from 2006 through 2010 the costs of providing enhanced services to the area have increased from \$446,000 to \$725,000, while the total amount of the assessment on businesses has remained stable at \$221,000. Since Metroplex funds are derived from county-wide sales taxes, we question whether these funds are appropriate for offsetting the special assessment charged to businesses in the district.

We noted that similar subsidies are not provided to the two other BIDS in the County.

Authority officials indicated that Metroplex grants to the BID provide funding for the façade program and downtown clean up and beautification process, and are not used to reduce the special assessments. However, the \$2 million in grants is in addition to \$2.4 million provided for the façade program. While we acknowledge that the special assessments have not been reduced, it appears that the Metroplex grants provided to the BID have enabled the BID to provide an additional \$280,000 worth of services to the businesses in the district without a corresponding increase in the assessment on those businesses.

- Metroplex funds three separate façade improvement programs, each focused on different areas of the County. For the period of our review, over \$4 million was approved for use for these three programs. However, we found that only \$2.6 million, or about 64 percent of all program funding, was used for making actual improvements. The balance was used for architect and design and program administrative costs. Architect and design costs are generally considered appropriate, to ensure that projects meet desired standards. However, administrative costs appear to be higher than necessary since Metroplex contracts with other organizations to administer the programs, and these organizations use a portion of the funds to cover their own administrative costs.
- The primary operating costs for each of the three IDAs consist of the agreement for Metroplex staff to provide administrative services. Each IDA pays Metroplex \$24,000 annually regardless of the level of services actually needed or provided. We noted that, for the most recent fiscal year, none of the IDAs generated sufficient administrative fees to pay this fee, and each drew on reserves to meet its contractual obligations to Metroplex. Further, the CRC was created by the County in 2010, and it also agreed to pay Metroplex for administrative functions. Using such an approach may be a viable way for Metroplex to provide administrative support to these organizations. We question why this funding model is necessary since it is simply a re-shuffling of funds among supposedly unified team members.
- We found that economic development staff are often shared among the municipalities and authorities, and receive additional compensation beyond their full time salaries, although all the work is done during normal work hours. For example, at the time of our review the CBC had two employees. One individual is employed full time by the City of Schenectady, but is also paid \$6,000 annually by the CBC to perform collections, maintain financial records and prepare quarterly CBC reports. This work is done during the individual's normal work hours for the City of

Schenectady, and we question whether a City employee can be assigned to work for another entity as a condition of employment. This individual also performs administrative and book keeping functions for the SLDC and the SLDC reimburses the City for the employee's salary and benefits. Since the City is reimbursed for the time this employee works for the SLDC, we question whether the City should treat that individual as a full-time employee. Authority officials responded that this is a cost saving measure, but did not address why it would be appropriate to allow full-time municipal employees to work for other entities during the municipal work day.

The other CBC employee is employed full time by Metroplex, but is paid \$15,000 annually by the CBC in addition to the salary paid by Metroplex.

- Although the Rotterdam IDA relies on Metroplex staff to perform administrative functions, it continued to pay town employees for these functions as well during the period covered by our review. Metroplex staff coordinate projects, attend Board meetings, keep the financial books of the IDA, and are responsible for property maintenance, reporting, promoting IDA activities and complying with applicable laws. Yet Rotterdam IDA paid Town staff \$2,000 a year for similar duties. Authority officials indicated that although two Town employees were being paid, this is a reduction in the number of Rotterdam IDA staff that were paid prior to 2010, when Metroplex took on the administration of the IDA. However, the number of staff being paid is not of significance. For 2009, Rotterdam IDA paid a total of \$11,000 for staff services, and for 2010, fewer staff were paid a total of \$6,266. Yet, in addition to these costs Rotterdam IDA paid Metroplex \$24,000 to provide essentially the same services that its staff continued to provide. Metroplex also reported that this arrangement was ended subsequent to our on-site work.

In general, these Town employees performed IDA functions concurrently with their Town responsibilities, during normal Town work hours. As such, there is the appearance that IDA functions are considered part of the governmental responsibilities of these Town employees. It is questionable why additional compensation is provided to perform IDA functions. As the Rotterdam IDA participates in the New York State Retirement System, these earnings were reported to the Retirement System, in addition to the individuals' earnings as Town employees. Authority officials responded that the compensation is reported to the State Comptroller in accordance with guidance provided by the State Retirement System. The IDA could not explain why it is appropriate to provide additional compensation for IDA functions performed as part of the individual's normal Town work hours. We have referred the matter to the Office of the State Comptroller for review.

- Board members of IDAs are to receive no compensation for their services but shall be entitled to the necessary expenses incurred in the discharge of their duties. Yet, we found that prior to 2010 the members of the Rotterdam IDA received annual stipends for serving on the board. From 2006 through 2009, over \$29,000 was paid to board members. Authority officials point out that this practice was discontinued in 2010.
- A business received a \$30,000 grant funded by Metroplex to make façade improvements, with the requirement that it contribute at least \$30,000 of its own funds to the estimated total costs of \$60,000. This business also received a \$5,000 grant from Rotterdam IDA for façade improvements, which appear to be for the same work funded under the Metroplex grant. As a result, this business may have been able to reduce its required matching contribution, in violation of the grant agreements. Authority officials responded that the Rotterdam IDA board was presented with information that the business had applied to two façade programs, and was assured that no duplication would occur. However, this presentation was made by the County Chamber of Commerce and only addressed information about the façade programs in general, not the specific application. Further, this presentation took place more than one year prior to the business applying for the façade grants. As such, there is limited assurance that the terms of the grant agreements were adhered to by the applicant.
- IDAs have the power to provide financial assistance to private entities. Section 854 of General Municipal Law defines the financial assistance that IDAs can provide as proceeds of bonds issued, straight leases, or tax exemptions claimed by a project occupant as a result of the IDA taking title or possession to the property or the occupant acting as an agent of the IDA. An IDA is not allowed to award its funds as grants or loans, if the purpose for which the grant would be used is unrelated to the IDA's corporate purpose or if the IDA does not receive a direct benefit or property interest in return. However, all three of the IDAs awarded grants during the scope of our review. The County IDA awarded a \$25,000 grant to the CBC in 2010. The Rotterdam IDA issued over \$70,000 in grants through 2010 as part of its façade program, in addition to providing a \$60,000 grant to a private developer to assist in site development for a project. There is no indication that either IDA provided the grant in exchange for a benefit, as required by law or any contractual arrangement. We also question why IDA funds were used for these grants when other economic development authorities in the County, such as SLDC or Metroplex, are able to provide similar grants. Authority officials indicate that IDA counsels were consulted prior to awarding each of these grants, but do not explain why IDA funds were used rather than the funds from another authority.

## Poor Management Practices

As part of our review we attempted to obtain information and review documentation supporting the financial assistance provided to economic development projects, but were hindered by inaccurate, conflicting, and missing records. For example, we attempted to determine the number of loans provided by the SLDC. SLDC officials gave us a listing of 53 loans made between 1996 and 2010 totaling \$1.3 million, resulting in the creation of 90 jobs. We compared this to the information reported by the SLDC in its annual report under Section 2800 of Public Authorities Law, and identified numerous discrepancies. We were able to reconcile the discrepancies, and identify 69 loans made to 63 different recipients, totaling \$1.8 million. This information also indicated that just over \$500,000 of these loans has been repaid. In response to our draft report, authority officials provided us a list of 143 loans awarded between 1996 and 2010 totaling almost \$3.7 million, resulting in the creation of 164 jobs. However, we also identified numerous discrepancies in this data. For example, three of the 53 loans are not included in the list of 143 loans, another loan was reported as \$25,200 in the original data, but as only \$7,200 in the listing of 143 loans. Due to the discrepancies in the data provided, we are unable to place any reliability on the accuracy of the records maintained regarding these loans. The lack of adequate record keeping raises the question as to the management controls put in place by the SLDC.

As another example, we reviewed information provided by Metroplex regarding façade projects it had funded, and identified two projects that appeared to have excessively high architect costs. Both of these projects consisted of simply creating signs for businesses. The total cost for one sign was \$6,700 and the total cost for the other sign was \$11,000. Yet, the records indicated that the architect's costs for these projects were \$3,000 and \$2,500, respectively. In responding to our draft report, Authority officials stated that the architectural costs for these projects may have been filed inappropriately, and actually pertained to another, larger project. Such discrepancies are not characteristic of an efficient and centralized team approach.

As previously stated, all three IDAs and the CRC have entered into agreements that call for Metroplex staff to provide administrative services. The City IDA's agreement calls for the IDA to pay \$750 per month. The County IDA's agreement calls for it to pay \$1,000 per month for the services. Neither of these agreements were amended or updated, yet at the time of our review, both of these IDAs were paying Metroplex \$2,000 per month for the services. Metroplex officials responded that this was correct and entirely appropriate for Metroplex to increase these fee levels due to increased activity, and that the increases were noted in the annual budgets adopted by each IDA. While we do not disagree that activity may have increased, any changes to the fees stipulated in the written agreements should be incorporated within revised or updated agreements, and

not unilaterally imposed. Moreover, these budget decisions do not abrogate the terms of a written contract.

Further, it appears that Metroplex has not been fulfilling all of its requirements under these agreements. As part of the agreement, Metroplex staff are to maintain all financial books and records and prepare and file all required reports. Section 2800 of Public Authorities Law requires each IDA to submit an annual report within 90 days of the end of its fiscal year, yet this report was not submitted for the Rotterdam IDA's 2010 fiscal year until July 2011, over three months delinquent. There has been no annual report submitted for CRC for 2010, although over \$15 million of debt was issued and over \$150,000 of revenue received. Lastly, the annual report submitted for the Rotterdam IDA's 2010 fiscal year failed to report the only project that received financial assistance from the IDA during 2010.

IDAs are to submit a report of all active procurement contracts with a value in excess of \$5,000, and maintain a list of all real property owned by the IDA. However, we found that none of the submitted procurement reports were accurate, since each of the IDAs had active contracts valued at over \$5,000. Furthermore, the real property reports maintained for each of the IDAs did not adequately describe the size and value of property owned by the IDA. Authority officials responded that contracts were not reported for legal and auditing services because the contracts were negotiated several years ago, and the contracts were not reported for the intervening two years. Yet, there have been no procurement contracts reported for either the County IDA or City IDA since online reporting was implemented in 2007. Authority officials responded that they believe that recording the size and value of property owned is not required and not useful unless the property is ready for disposition. However, knowing the size and value of real property owned is critical for proper and accurate valuation of authority assets, as well as for ensuring adequate insurance coverage.

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## Recommendations

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1. Reduce the number of authorities involved in economic development in the County to eliminate the authorities providing redundant and duplicative types of financial assistance.
2. Counsels to the Rotterdam IDA and the Town of Rotterdam should determine how to effect the provisions of Section 882 of General Municipal Law and advise the entities on the appropriate actions to take in complying with the provisions in this section of law.
3. All participating authorities should agree on and implement a truly unified approach to economic development that utilizes a streamlined application process, ensures that all relevant information is shared among all authorities, fully identifies all financial assistance being provided, and relies on fewer and less redundant authorities to execute.
4. The existing authorities should develop a comprehensive multi-year plan that coordinates economic development throughout the county, fosters a full understanding of the role and purpose of all involved authorities, and is updated annually.
5. Consistent with this plan, Metroplex should develop and update annually its five-year capital plan, as required by Section 2655-c of Public Authorities Law.
6. Discontinue the practice of using economic development funds to pay for administrative and operating costs of the economic development authorities.
7. Metroplex, as the central administrative support agency, should provide such services directly to the other authorities, without charging fees.
8. Reconsider the practice of providing economic development funds to other organizations to allocate, since the use of these funds for administrative and support activities reduces the funds spent on economic development.
9. Metroplex should discontinue the practice of subsidizing Business Improvement Districts with proceeds from the County sales tax to offset special assessments charged to businesses located within the District.
10. Neither the County nor the City should not assign municipal employees to work for public authorities during the municipal work day or provide additional compensation for this work without a determination from the Office of the State Comptroller.

11. The Rotterdam IDA or Town of Rotterdam should recover the stipends paid to past board members, since they were to serve without compensation as stipulated in Article 18-A of General Municipal Law.
12. Each authority should restrict the financial assistance it provides to projects to those enumerated in its enabling legislation.
13. Each authority should establish and adhere to appropriate procedures and controls to ensure that all economic development records are accurate, complete, and maintained appropriately.
14. Authorities should only make payments for contractual services that are in accordance with the terms of a contract. No payments should exceed those amounts unless the contract has been properly amended and adopted.
15. Authority boards should ensure that all financial and operating information is correctly and accurately reported in PARIS by Metroplex, since it is the authority that is legally obligated to be in compliance with all reporting requirements. This includes ensuring that all projects and contracts are properly reported, and that property reports accurately describe the property owned.