



PR12-03-025  
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March 19, 2012  
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**LIU: EDC SUBSIDIZES EMPTY JOB PROMISES**

*Audit finds agency responsible for economic growth doles out a half-billion in tax breaks and benefits each year, but gave \$318 million to companies that didn't deliver the promised jobs*

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NEW YORK, NY – City Comptroller John C. Liu today announced that an audit of the Industrial Development Agency (IDA) found striking deficiencies, which caused the agency to waste millions of taxpayer dollars on companies that did not live up to their agreements to create and retain jobs in the City.

The city's Economic Development Corporation is responsible for the management, reporting, and oversight of the IDA's tax breaks, tax-exempt bond sales, and other benefits for companies. In return for these public benefits, most companies must agree to keep their existing jobs in New York City and/or create a specific number of new jobs. The audit found that the EDC not only failed to properly evaluate the companies selected to receive public assistance, but also neglected to monitor them and terminate their benefits after they clearly couldn't deliver the promised local economic boost.

Of the \$497 million in tax breaks that 576 companies received under the IDA's supervision, more than half — \$318 million — went to 334 companies that failed to meet their job retention and creation obligations. The IDA also failed to recover \$16 million in benefits it handed out to companies that defaulted on their agreements. The audit, which was launched in July 2010, surveyed Fiscal Year 2009 — the most complete recent information available from the agency — and followed projects from their request for benefits to the current fiscal year.

“The EDC has enormous power to create and protect jobs, and yet it has handed out huge taxpayer subsidies with alarmingly spotty results,” Comptroller Liu said. “Jobs are needed more than ever, but we cannot afford to leave economic development to an EDC roll of the dice that throws around hundreds of millions and hopes for the best. Corporate subsidies must be used more sparingly and only be granted after careful and thorough assessment that the job creation and retention will be real.”

**Flaws in Selection and Monitoring of Projects**

The EDC selected projects for IDA benefits based on shaky promises of job creation. The EDC not only failed to examine applicants' financial plans to see if they were realistic, but also neglected to determine whether the promised jobs were, in fact, ultimately created. A close look

at three projects, which received \$250 million subsidies and tax-free bond issuances over the years, illustrated the flaws in the IDA's project selection and oversight:

**1) Bronx Parking Development Company, LLC, Bronx**

The EDC did not see gaping holes in Bronx Parking's financial plan before it approved \$225 million in bond financing for the project. Currently, Bronx Parking is at risk of defaulting on its bond payments and contrary to its agreement under the IDA benefits package to create 55 new jobs, Bronx Parking has lost six full-time jobs.

Bronx Parking built 2,184 parking high-cost spaces adjacent to Yankee Stadium in the misguided belief parking demand would rise.

The EDC relied on a questionable parking study commissioned by the applicant. Furthermore, the EDC gave IDA benefits to Bronx Parking despite its parent company's defaults on tax-exempt economic development bonds.

**2) Wartburg Lutheran Nursing Home for the Aging and Wartburg Nursing Home, Inc., Brooklyn**

The EDC approved \$19 million in IDA tax-exempt bonds to finance this nursing home's renovation in 2006 despite the fact that it had operating losses of \$4.4 million. Wartburg completed millions in renovations and promptly notified the EDC that it was selling the facility in February 2008.

**3) Hollow Metal Factory Outlet Corp., Brooklyn**

The EDC gave the company approximately \$300,000 in IDA benefits to create 10 jobs over three years. Nearly a decade later the company had hired just two people and ended its agreement in February 2009. As a result, taxpayers subsidized the company for \$148,000 per job. The subsidies were approved even though the company showed very low expectations for annual profits.

**Failure to Stop and Recapture Benefits From Projects in Default:**

When companies defaulted on their agreements, the EDC rarely used its power to swiftly terminate the contracts and recapture their taxpayer-funded benefits. The EDC let five companies take more than \$16 million in public benefits after they defaulted on their agreements in FY 2009.

- EDC surrendered its right to recapture \$14 million in tax and energy benefits from Bear Stearns and its successor company, JPMorgan Chase & Co. in Manhattan.
- The EDC waived its right to collect \$1.16 million from Baldor Specialty Foods in the Bronx.
- EDC failed to retake more than \$520,000 in Mortgage Recording Tax benefits given to Wartburg Nursing Home in Brooklyn after the facility had been sold.

**Recommendations**

The audit made seven recommendations to the EDC to strengthen the agency's analysis of companies requesting IDA benefits, its monitoring of their progress, and its recapture of benefits from those that violate their agreements. While the EDC disagreed with many of the recommendations, the agency deserves credit for its new five-year self-audit plan that it promises

will annually examine 20% of the companies receiving benefits to determine if they are providing the jobs they promised and otherwise following their agreements.

### **Background**

The city's Economic Development Corporation is responsible for the management, reporting and oversight of the IDA's tax breaks, tax-exempt bond sales, and other benefits for companies. The IDA is governed by a 15-member board. Nine members report to the Mayor and six members represent the Borough Presidents and the Comptroller. Approval of public benefits requires approval from eight board members. In FY 2009, the EDC oversaw \$497 million in IDA tax breaks for 576 projects.

### **Audit Scope**

The audit surveyed the 576 projects under IDA supervision in FY 2009 and conducted further examinations into major projects from that list, including seven that defaulted, from their year of origination into the current fiscal year.

Comptroller Liu credited Deputy Comptroller for Audit Tina Kim and the Audit Bureau for presenting the findings. The latest audit report is available at: <http://comptroller.nyc.gov/audits>

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