

New York State Economic Development Updates by Aaron B. Gagné, MCRP

With the dust settling from the annually “challenging” New York State budget process, there has been a round of program updates regarding economic development programs as they apply to facility users, owners and developers. Empire Zones, Build Now – NY, ongoing tax cuts, commercial interest rate subsidies and a new loan fund are all notable this year.

The **Empire Zones Program**, popular for its generous tax incentives to new and relocating business and industry, is being expanded from 62 zones statewide to 72. Four of these zones have already been identified, and the remaining six will be subject to a competitive application round. Specific program changes and updates are as follows:

1. While the Empire Zone program is scheduled to expire on July 1, 2004, businesses that have been certified as “Qualified Empire Zone Enterprises” will retain their tax credit status for the full 15-year life of the certification.
2. Real Property Tax Credits offered under the program are being redefined to focus on job creation, new construction and existing facility renovation. Caps for the credits are being established based on investment and occupancy.
3. Loopholes are being closed in the “new business test” section of the regulation, preventing existing businesses for filing for new credits and incentives simply by restructuring under a new corporation.
4. Local IDA PILOT payments will only be able to be used to claim real property tax credits if the individual PILOT agreements are approved by both Empire State Development and the NYS Office of Real Property Tax Services.
5. Boundary revisions to zones will continue to be allowed at a rate of up to 1 per year per zone. 75% of the total area will need to remain in up to three non-contiguous zones as originally approved, with greater flexibility for the remaining 25%. For projects with more than 300 new jobs, this ratio may be deviated from.

With respect to **tax cuts**, as previously conceived, the message was very clear from the Governor’s office – scheduled tax cuts across the board in New York remain on track. While State revenues have slipped with the economic slowdown, the commitment to over \$1 billion in tax cuts over the next three years remains firm. Many have asked about a perceived diversion of funds to the NYC area of late – suffice it to say that 99% of the funds pouring into lower Manhattan are either Federal or Port Authority monies. Stay tuned for further updates in this area.

The “**Empire Opportunity Fund**” (“EOF”) was created as a new tool directly targeted at economic development (read: the creation of jobs and encouragement of private investment) projects. When fully implemented, the \$2 billion fund will target Upstate, the Hudson Valley and Long Island. Many view the program as an effort to achieve parity between the funds that have poured into New York City since the tragedies of September 11 and the rest of the state.

The EOF is intended to support major infrastructure projects that lead to the creation of new jobs, such as high tech/biotech research and development facilities and incubators, industrial parks, downtown commercial revitalization, brownfield redevelopment, high-tech communications, public water supply facilities, transportation improvements, convention centers, inner harbor/waterfront improvement, parks and recreational facilities, and tourism destinations.

The EOF will accept applications from any city, county, town or village outside New York City, and from local and regional economic development organizations. The Fund will be administered in consultation with an advisory council of leading public- and private-sector officials from regions that would benefit from the program, the specific composition of which has not yet been identified.

Under the plan, \$50 million in the 2002-03 Executive Budget would begin to support an initial \$750 million in funds for the program, which would be immediately available for critical economic development projects across the State. Each of these projects will be eligible for funding if they show they can leverage private funds to create jobs.

In the third year of the program, when it is expected that the recently authorized Native American casinos are fully operational, State revenues from the casinos would be dedicated toward EOF projects. It is expected that these revenues would ultimately support total investment under the program of more than \$2 billion, as well as fund other economic stimulus initiatives.

In 1998, the first round of **Build Now – NY** (“BNNY”) was introduced. Since that time, \$183 million in private investment, 1.23 million square feet of new space and over 1,300 new jobs has gone into the designated sites. Round 2 of BNNY is forthcoming, and is expected to focus on high tech manufacturing, mixed use high tech parks and distribution/logistics and e-commerce fulfillment businesses. 25 sites will be designated statewide, and each will qualify for a \$75,000 matching grant. The kickoff meeting for the round is expected in late June.

Included in the budget were also several smaller initiatives which might be valuable to our clients and associates. They include the **Wired Buildings Program**, offering matching grants for the installation of communications infrastructure for smaller businesses, the **Centers of Excellence** initiative, intended to create technology centers to work with identified industry clusters, and **Regional Marketing and Tourism** programs, regionally, nationally and inter-nationally.

With funds flowing as they are apt to do in an election year, there are inevitably places where the difference must be “made up”. A new revenue source enacted in the budget are new fees associated with bonds issued either by IDA’s or the Dormitory Authority. The fees will be treated as allowable capital costs for the purposes of reimbursement, but in the case of Dormitory Authority issued bonds, they represent a doubling of fees. The new structure is as follows:

<u>Bonded Amount</u>	<u>Fee</u>
\$1 million or less	0.14%
\$1 million to \$5 million	0.28%
\$5 million to \$10 million	0.42%
\$10 million to \$20 million	0.56%
over \$20 million	0.70%

Department of Health Article 28 reimbursed projects will be subject to an additional 0.90% fee, and Department of Health approved refinancing project will carry an additional 0.50% fee. Ultimately, these will all drive up capital costs for projects that might otherwise find the public bond financing route very attractive.