



Broome County Industrial Development Agency

Evaluation of Project Outcomes

Report of Examination

Period Covered:

January 1, 2004 — June 16, 2011

2011M-198



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2012

Dear Agency Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Broome County Industrial Development Agency, entitled Evaluation of Project Outcomes. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Broome County Industrial Development Agency (BCIDA) was established in 1970 and is governed by a Board which comprises nine members who are appointed by the Broome County Legislature. The Board is responsible for the general management and control of the BCIDA's financial and operational affairs. The BCIDA appointed an Executive Director to manage its day-to-day operations. The BCIDA reported 42 active industrial development projects in its 2010 annual financial report to the Office of the State Comptroller. Eleven of those projects were approved during our audit period.

The BCIDA generally assumes the title of the real and/or personal property owned by the businesses that are involved in the BCIDA's approved projects, which allows the BCIDA to offer benefits to these businesses (e.g., sales tax exemptions and real property tax abatements). The BCIDA is not required to pay taxes or assessments on any property that it acquires or that is under its jurisdiction, control, or supervision. It provides a general Payment in Lieu of Taxes (PILOT)¹ agreement to approved businesses, which results in real property tax abatements for the business owners. These PILOT agreements are governed by the BCIDA's Uniform Tax Exemption Policy (UTEP)² which outlines, among other things, the process of recapturing benefits if a company receiving a PILOT does not meet anticipated performance.

Scope and Objective

The objective of our audit was to evaluate the BCIDA management practices for the period January 1, 2004 to June 16, 2011. Our audit addressed the following related questions:

- Did BCIDA officials ensure that projects that received property tax abatements under the current UTEP were in the best interest of the community?
- Do any BCIDA officials have a prohibited interest in contracts with BCIDA?

¹ PILOTs are amounts paid for certain tax-exempt parcels in lieu of real property taxes that would otherwise have been paid, had the property not been tax-exempt.

² As a result of State legislation passed in 1993 amending section 874 of the General Municipal Law, each IDA is required to establish a "uniform tax exemption policy with input from affected tax jurisdictions ... and shall provide guidelines for the claiming of real property, mortgage recording, and sales tax exemptions." The guidelines must include the period of exemptions, percentage of exemptions, types of projects for which exemptions can be claimed, procedures for payments-in-lieu-of-taxes and circumstances under which real property appraisals are required.

Audit Results

BCIDA officials ensured that projects that received property tax abatements under the current UTEP were in the best interest of the community. The BCIDA extended benefits totaling approximately \$101.3 million for 11 projects during our audit period. These BCIDA benefits were in the form of reducing the taxes the project would have paid if the project occurred without assistance. In return, these projects reportedly created 578 jobs with estimated annual salaries totaling \$21 million; increased the assessed value of the respective properties by approximately \$106 million, which equated to an additional \$38 million in revenue for the local municipalities during the PILOT terms; and created additional ancillary businesses. In fact, in all but one project, the taxes paid by the project owners were more than the taxes levied on the properties before the projects began. We commend BCIDA officials for implementing projects that created economic growth in the taxpayers' best interests.

However, we found that the BCIDA Chairman (Chairman) had a prohibited interest in a contract with BCIDA. The Chairman is an officer and 16 2/3 percent member of the Washington Development LLC. On August 23, 2010, the BCIDA entered into a PILOT agreement with the City of Binghamton and Washington Development LLC for the purpose of constructing a student apartment complex. The Chairman, as an officer of the BCIDA and member of the LLC, has an interest in the contract. As a member of the BCIDA Board at the time the PILOT agreement was entered, the Chairman had one or more of the powers and duties that give rise to a prohibited interest in a contract. Therefore, since it appears that no statutory exceptions apply in this case, the Chairman has a prohibited interest in the contract.

At the time the LLC filed its application for tax exemption, the Chairman verbally disclosed to the BCIDA Board his ownership interest in the LLC. The Chairman also recused himself from voting on the PILOT agreement. Both the BCIDA chief executive officer and the BCIDA legal counsel told us that the Chairman's disclosure and recusal were based on the advice from the BCIDA's legal counsel. However, disclosure and recusal do not cure a prohibited interest under article 18 of General Municipal Law.

When BCIDA officers, in their private capacities, conduct business with the BCIDA, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety and/or may result in the improper enrichment of the officers or employees at taxpayer expense.

Comments of Local Officials

The results of our audit and recommendations have been discussed with BCIDA officials and their comments, which appear in Appendix A, have been considered in preparing this report. BCIDA officials agreed with the findings in our report and indicated they planned to initiate corrective action.

Introduction

Background

Industrial Development Agencies (IDAs) are independent public benefit corporations whose purpose is to promote, develop, and assist industrial, manufacturing, warehousing, commercial, research, and recreation facilities. The overall goal of IDAs is to advance the job opportunities, health, general prosperity, and economic welfare of the people of the State. The powers and duties of IDAs are set forth under Article 18-A of General Municipal Law (GML). Typically, projects that receive IDA benefits involve the acquisition, construction, or major renovations of buildings or other structures and generate short-term and long-term employment in construction and operations-related jobs.

The Broome County Industrial Development Agency (BCIDA) was established in 1970 and is governed by a Board comprised of nine members who are appointed by the Broome County Legislature. The Board is responsible for the general management and control of the BCIDA's financial and operational affairs. The BCIDA appointed an Executive Director to manage its day-to-day operations. The BCIDA reported 42 active industrial development projects in its 2010 annual financial report to the Office of the State Comptroller. Eleven of those projects were approved during our audit period.

The BCIDA generally assumes the title of the real and/or personal property owned by the businesses that are involved in the BCIDA's approved projects, which allows the BCIDA to offer benefits to these businesses (e.g., sales tax exemptions and real property tax abatements). The BCIDA is not required to pay taxes or assessments on any property that it acquires or that is under its jurisdiction, control, or supervision. It provides a general Payment in Lieu of Taxes (PILOT)³ agreement to approved businesses, which results in real property tax abatements for the business owners. These PILOT agreements are governed by the BCIDA's Uniform Tax Exemption Policy (UTEP) which outlines, among other things, the process of recapturing benefits if a company receiving a PILOT does not meet anticipated performance.

Objective

The objective of our audit was to evaluate the BCIDA management practices for the period January 1, 2004 to June 16, 2011. Our audit addressed the following related questions:

³ PILOTs are amounts paid for certain tax-exempt parcels in lieu of real property taxes that would otherwise have been paid, had the property not been tax-exempt.

- Did BCIDA officials ensure that projects that received property tax abatements under the current UTEP were in the best interest of the community?
- Do any BCIDA officials have a prohibited interest in contracts with BCIDA?

Scope and Methodology

We examined projects with tax abatements sponsored by the BCIDA for any additional community benefits and conflicts of interest from the period January 1, 2004 to June 16, 2011. Our analysis did not include reductions in sales tax or mortgage recording taxes, as these benefits were approximately 5 percent of the total reductions afforded project applicants.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with BCIDA officials and their comments, which appear in Appendix A, have been considered in preparing this report. BCIDA officials agreed with the findings in our report and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Secretary's office.

Evaluation of Project Outcomes

The overall objective of any industrial development agency (IDA) is to provide the greatest economic gain to its constituency at the lowest possible cost. This includes attracting, encouraging, and assisting in the development of projects⁴ with the expectation of creating and/or retaining jobs, increasing aggregate property values, recovering abated real property tax revenues, and improving the local economic environment. These projects should be extended benefits and assistance at the lowest possible financial impact to the respective community. For example, an IDA may provide assistance for a project whereby various tax obligations are reduced or eliminated for a business with the intent of generating additional jobs. In some instances, an expectation of additional collateral businesses being created in support of, or as a result of, a project's successful execution provides further economic stimulus to the community. This example would be deemed more successful if the tax benefits extended to the business in the form of tax abatements have a low, or no, net impact on the local taxpayers.

The Broome County Industrial Development Agency (BCIDA) extended benefits totaling approximately \$101.3 million for 11 projects during our audit period. These BCIDA benefits were in the form of reducing the taxes the project would have paid if the project occurred without assistance. In return, these projects reportedly created 578 jobs with estimated annual salaries totaling \$21 million; increased the assessed value of the respective properties by approximately \$106 million, which equated to an additional \$38 million in revenue for the local municipalities during the Payment in Lieu of Taxes (PILOT)⁵ terms; and created additional ancillary businesses. In fact, in all but one project, the taxes paid by the project owners were more than the taxes levied on the properties before the project began.

Our testing of the 11 approved projects determined that BCIDA officials ensured that projects that received property tax abatements under the current Uniform Tax Exemption Policy (UTEP)⁶ were in the best interest of the community. BCIDA officials accomplished

⁴ See General Municipal Law section 854 (4)

⁵ PILOTs are amounts paid for certain tax-exempt parcels in lieu of real property taxes that would otherwise have been paid, had the property not been tax-exempt.

⁶ As a result of State legislation passed in 1993 amending section 874 of the General Municipal Law, each IDA is required to establish a "uniform tax exemption policy with input from affected tax jurisdictions ...and shall provide guidelines for the claiming of real property, mortgage recording, and sales tax exemptions." The guidelines must include the period of exemptions, percentage of exemptions, types of projects for which exemptions can be claimed, procedures for payments-in-lieu-of-taxes and circumstances under which real property appraisals are required.

this by performing cost-benefit analyses prior to approving all projects. All 11 approved projects that we reviewed included cost-benefit analyses in which the benefits provided by the projects exceeded the costs to the community. In addition, BCIDA does not enter into agreements that will cause the taxes collected by a related municipality to decrease as a result of the BCIDA extending benefits to a project in at least the first year. BCIDA's UTEP includes a tax payment schedule that does not authorize properties to pay lower taxes than the amount they originally paid. Further, the PILOT agreements in our sample included payment requirements that were equal to or greater than the pre-project taxes paid. In addition, we reviewed the BCIDA's 2010 project reports and determined that BCIDA officials monitored projects' progress by requesting and reviewing yearly project results. When necessary, they canceled PILOT agreements for projects that did not meet their stated goals. In fact, in June 2011, BCIDA officials canceled the New Vision project in our sample because it failed to create the required number of jobs outlined in the PILOT agreement. We commend BCIDA officials for implementing projects that created economic growth in the taxpayers' best interests, monitoring the status of these projects, and taking action when the projects were not benefiting the community as intended.

PILOT Agreements – The BCIDA enters into formal PILOT agreements with project owners in which the project owners pay a percentage of the real property tax to the affected municipalities and school districts based on the BCIDA's policy. These PILOT payments gradually increase as a percentage of the amount of full taxes that would be owed absent such an agreement.

The BCIDA sponsored 11 projects involving construction or redevelopment of buildings that received approximately \$101.3 million in real property tax reductions through their PILOT agreements.

Table 1: Real Property Tax Reductions per Project		
Project	Average Annual Tax Reduction	Total Taxes Reduced
Gannett	\$359,492	\$5,392,376
University Plaza	\$312,566	\$3,125,661
Maines 1 ⁷	\$330,345	\$4,955,175
Millennium Pipeline	\$898,145	\$13,472,168
Maines 2	\$53,912	\$808,674
Scannell	\$54,598	\$545,976
Good Shepherd	\$2,021,800	\$60,654,011
New Vision	\$1,714	\$17,137
Impress	\$7,500	\$150,000
Washington	\$391,079	\$7,821,589
Stellar 83	\$442,132	\$4,421,317
Total	\$4,873,283	\$101,364,084

While these reductions may be considered lost tax revenue, the BCIDA provided these benefits with the contracted expectation that the investments would result in significant returns to the community. As discussed in more detail below, these projects delivered significant benefits to the taxpayers, including increasing assessed property values, generating additional revenues, creating jobs, and spearheading ancillary development.

Increases in Assessed Values – Development of unimproved property, redevelopment of existing property, or the conversion of previously-exempt properties to taxable status has a positive impact on the community. As a municipality’s total taxable assessed value increases, the real property tax rate will decline if the tax levy remains the same. For example, if total assessments were to increase 10 percent, and the tax levy remains the same, the tax rate will be reduced by just over 9 percent. Even if a local municipality’s tax levy were to rise, an increase in total assessed value would serve to offset an increase in the tax rate.

Ten of the 11 projects that the BCIDA sponsored during our audit period will likely increase the assessed value of the municipalities they reside in at the completion of the PILOT agreement. These 10 projects included newly constructed facilities and the construction of a new pipeline. The New Vision project was the only project whose PILOT payments were not based on an increased assessment; instead, the payments were frozen at the 2009 tax bill for that property. The

⁷ The Maines 1 project represented an expansion of a previous IDA-sponsored project started in 1997. The expansion project received IDA sponsorship in 2005, along with a new PILOT agreement.

New Vision project was for the redevelopment of an existing facility. During the term of a redevelopment project, BCIDA's UTEP allows PILOT payments to be frozen at the tax rate for the assessed value of the property at the time the project was initiated. Therefore, this project did not result in an increase to the assessed value of the property.

Table 2: Assessed Values of Projects			
Project	Assessed Value Before Project	Assessed Value After Project	Difference
Gannett	\$100	\$712,900	\$712,800
University Plaza	\$0	\$26,879,280	\$26,879,280
Maines 1	\$9,960,000	\$12,686,000	\$2,726,000
Millennium Pipeline	\$0	\$56,076,570 ^a	\$56,076,570
Maines 2	\$120,000	\$1,960,000	\$1,840,000
Scannell	\$174,300	\$1,610,000	\$1,435,700
Good Shepherd	\$18,000	\$1,940,600	\$1,922,600
New Vision	\$54,000	\$54,000	\$0
Impress	\$0	\$1,987,850	\$1,987,850
Washington	\$1,126,300	\$8,900,000 ^b	\$7,773,700
Stellar 83	\$150,000	\$4,900,000 ^c	\$4,750,000
Totals	\$11,602,700	\$117,707,200	\$106,104,500
^a Project is for the construction of a subterranean natural gas pipeline that did not increase specifically identifiable real property because the tax is based on the length of the pipeline and not the real property it traverses. ^b Assessed value of \$8.9 million will not occur until the completion of the construction phase in 2013. ^c Assessed value of \$4.9 million will not occur until the completion of the construction phase in 2013.			

The local municipalities' increased assessed value provides for further taxing power in future years and also has the potential to lower the municipalities' overall tax rates. In fact, at the end of the PILOT terms, these projects will pay full taxes and provide revenues to the municipalities that may not have been available. We estimated that the aggregate tax revenue for the first year after the completion of their respective PILOT agreements will be approximately \$9.8 million, which is a significant increase in the tax revenues. For example, prior to the start of six of these projects, there were no taxes paid on the parcels. In the five remaining projects, the tax increases from pre-project levels to post-PILOT levels increased by an average of 4,475 percent. In addition, because of the stipulations in BCIDA's UTEP, these projects will generally generate additional revenue for the local municipalities during the term of the PILOT, as discussed in more detail below.

Additional Revenues – In total, the 11 projects we analyzed will generate \$38 million in additional revenue (in the form of PILOT payments) to the local municipalities over the term of the PILOT. As illustrated in Table 3, the amounts paid under the PILOT agreements are generally more than the taxes collected from these properties prior to the project:

Project	Total Taxes Prior to Project (extended over term of PILOT)	Total PILOT Payments	Additional Revenue
Gannett	\$0	\$5,729,977	\$5,729,977
University Plaza	\$0	\$4,484,935	\$4,484,935
Maines 1	\$4,621,238	\$5,272,633	\$651,394
Millennium Pipeline	\$0	\$14,413,586	\$14,413,586
Maines 2	\$0	\$863,234	\$863,234
Scannell	\$0	\$390,079	\$390,079
Good Shepherd	\$569,017	\$692,378	\$123,361
New Vision	\$420,801	\$403,664	(\$17,137)
Impress	\$0	\$2,376,738	\$2,376,738
Washington	\$3,578,928	\$11,950,565	\$8,371,636
Stellar 83	\$ 720,747	\$1,415,571	\$694,824
Totals	\$9,910,731	\$47,993,360	\$38,082,627

These additional revenues were a result of the BCIDA’s policies. The BCIDA Director told us that the BCIDA does not enter into agreements that will cause the taxes collected by a related municipality to decrease as a result of the BCIDA extending benefits to a project in at least the first year. This intent is reflected in the standard PILOT structures included in the BCIDA’s UTEP.

Redevelopment projects deviate from the BCIDA’s standard PILOT agreement, and allow the project owner to pay taxes equal to what the previous owner paid; this amount is frozen for the term of the PILOT. The New Vision project was the only redevelopment project in our sample. The \$17,000 listed above represents our estimate of tax increases over the term of the PILOT that the project owner would not have to pay.

BCIDA officials supported projects that will generate an estimated \$38 million in additional revenues for the affected municipalities during the terms of the PILOT agreements.

Job Creation – Part of the legislative intent when creating an IDA is to advance job opportunities in the municipality in which the project is located. Accordingly, the BCIDA requires applicants to create, or retain, jobs as consideration for the reduction in taxes included in their PILOT agreements. Increased employment provides residents with income to further the economic benefit to the area.

During our audit period, the 11 projects reported to BCIDA that they created a total of 578 jobs⁷ as of December 31, 2010. BCIDA did not independently verify this information, nor did it obtain salary information related to these jobs. Since this information is critical to determining whether the projects have been successful, BCIDA needs to establish mechanisms to verify the jobs created and retain data that is reported by individual projects.

Assuming that the jobs created data is accurate, it could be used to evaluate the success of the individual projects and of BCIDA's overall efforts. For example, while it cost approximately \$87 million in net exemptions to create these jobs, we estimate that, based on 2010 average wages for Broome County,⁸ the annual income from these jobs was approximately \$21 million in 2010. If these salaries are comparable to average wages for Broome County, during the term of the PILOTs tested, we estimate this income to total approximately \$394 million.

BCIDA officials terminated the New Vision PILOT agreement in June 2011 for failure to meet job creation requirements. While New Vision's PILOT agreement stated that it would create 62 jobs as of December 31, 2010, it had only created 15 jobs. The BCIDA Board terminated the PILOT agreement and informed the Broome County real property tax office to remove the New Vision tax parcel from the tax-exempt section of the tax roll and to include it in the taxable section. This action effectively eliminated any tax abatements New Vision was receiving and now requires them to pay full taxes on their real property.

Ancillary Development – The development of vacant properties or the redevelopment of an aging, dilapidated property may cause secondary development in that area. Such development could include surrounding businesses rehabilitating their store fronts, new store

⁸ These figures do not reflect jobs relating to the construction work for any of the projects.

⁹ As determined by the New York State Department of Labor

fronts opening because of the increased traffic that the sponsored project may cause, and/or new businesses directly supporting the project's business function.

As an example, a student housing project built in a portion of a near-vacant former shopping center has been the epicenter for redevelopment. The project was completed in 2006. Since then, at least seven restaurants and a fitness center have been added to that center. The code enforcement officer for the town where this housing project is located told us that these new businesses arrived during or soon after the housing project completed construction. The other two student housing projects in our sample were still ongoing when we completed our fieldwork; therefore, ancillary development created by these projects is yet to be determined.

Recommendation

1. BCIDA officials should establish mechanisms to verify the jobs created and retain data that is reported by individual projects.

Conflict of Interest

Article 18 of General Municipal Law (GML) limits the ability of municipal officers and employees to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, GML prohibits municipal officers and employees from having an “interest” in a contract with the municipality for which they serve when they also have the power or duty – either individually or as a board member – to negotiate, prepare, authorize, or approve the contract; to authorize or approve payment under the contract; to audit bills or claims under the contract; or to appoint an officer or employee with any of those powers or duties. For this purpose, a contract includes any claim, account, demand against, or agreement with a municipality.

Municipal officers and employees have an interest in a contract when they receive a direct or indirect monetary or material benefit as a result of a contract. Municipal officers and employees are also deemed to have an interest in the contracts of their spouse, minor children and dependents (except employment contracts with the municipality); a firm, partnership, or association of which they are a member or employee; and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, interests in actual or proposed contracts on the part of a municipal officer or employee, or his or her spouse, must be publicly disclosed in writing to the municipal officer’s or employee’s immediate supervisor and to the governing board of the municipality.

As a rule, interests in actual or proposed contracts on the part of a BCIDA officer or employee must be publicly disclosed in writing to the Board, and included in the official record of the Board’s proceedings. This disclosure, however, does not allow for a prohibited interest under article 18 of GML.

We found that the BCIDA Chairman (Chairman) had a prohibited interest in a contract with BCIDA. The Chairman is an officer and 16 2/3 percent member of the Washington Development LLC. On August 31, 2010, the BCIDA entered into a Payment In Lieu of Taxes (PILOT) agreement with the City of Binghamton and Washington Development LLC for the purpose of constructing a student apartment complex. This agreement resulted in tax abatements totaling \$7.8 million for the LLC during the term of the PILOT. The Chairman, as an officer of the BCIDA and member of the LLC, has an interest in the contract. As a member of the BCIDA Board at the time the PILOT agreement was entered, the Chairman had one or more of the

powers and duties that give rise to a prohibited interest in a contract. Therefore, since it appears that no statutory exceptions apply in this case, the Chairman has a prohibited interest in the contract.

At the time the LLC filed its application for tax exemption, the Chairman verbally disclosed to the BCIDA Board his ownership interest in the LLC. The Chairman also recused himself from voting on the PILOT agreement. Both the BCIDA chief executive officer and the BCIDA legal counsel told us that the Chairman's disclosure and recusal were based on the advice from the BCIDA's legal counsel. However, disclosure and recusal do not cure a prohibited interest under article 18 of GML.

BCIDA officers are accountable to the public, especially when the expenditure of taxpayer money is involved. When BCIDA officers, in their private capacities, conduct business with the BCIDA, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety and/or may result in the improper enrichment of the officers at taxpayer expense.

Recommendation

2. The Board should establish and implement controls to ensure that the BCIDA does not enter into contracts in which an officer or employee has a prohibited interest.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

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January 26, 2012

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Chief Examiner
Office of the State Comptroller
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Dear Mr. Eames:

Please accept this letter as the Broome County Industrial Development Agency's written response to the "Draft" Audit Report of our Agency recently conducted by the Office of the New York State Comptroller.

First, I would like acknowledge the professionalism of your on site auditor [REDACTED]. His comprehensive approach and willingness to explore the details and facts behind the projects that were audited resulted in a fair and balanced accounting of this Agency's activities during the period of January 1, 2004 to June 16, 2011.

As such, I acknowledge that your draft audit is acceptable and that we are in agreement with your findings.

We are in the process of developing a Corrective Action Plan for the two recommendations that were made. This plan will be presented to the Agency's board of directors for their review and approval. Once the plan is finalized we will forward it under separate cover.

Respectfully yours,



Richard D'Attilio, CEcD
Executive Director

cc: [REDACTED]

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish the objective of this audit and obtain valid evidence, our audit procedures included the following:

- We reviewed Article 18-A of General Municipal Law to determine the powers vested in industrial development agencies and the process used to exercise those powers.
- We reviewed the BCIDA's Uniform Tax Exemption Policy and determined what provisions would apply to our audit work.
- We inquired about the number of projects the BCIDA sponsored since the start of our audit period. We obtained all information for these projects including the property tax map numbers, the project files including PILOT agreements, and the 2010 annual certification of jobs and taxes abated submitted by the project owners.
- We interviewed BCIDA officials to determine their views regarding economic development.
- Using the approved PILOT agreements for all projects in our audit period, we recreated the payment schedules for these projects with estimation of future tax increases (2 percent increase annually unless the PILOT had specific increases) and the percentage of taxes abated. We compared these numbers to our estimates of the amount of taxes that we projected the projects would have paid without PILOT agreements during the duration of the PILOTs. We analyzed the results to determine whether PILOT payments were more, less, or equal to the taxes for properties, had the project not happened.
- We requested the assessed values before and after the projects from the Broome County Real Property Tax Department. We compared these values and determined by what amount the assessments increased for the properties these projects resided on.
- We verified the 2010 Public Authorities Reporting and Information System (PARIS) report information for the BCIDA projects by tracing the information, including jobs created, to 2010 project confirmations submitted by the project owners.
- We documented the number of jobs each project created as of December 31, 2010 from the 2010 PARIS report.
- We interviewed municipal officials where we determined ancillary development had occurred in relation to BCIDA-sponsored projects to determine if the new business growth could be attributed to the projects.
- We reviewed all project files for our scope and determined who the owners of these projects were. We compiled a list of these owners and compared this to the BCIDA Board member listings for this same time frame. We documented any relationships we found between project

owners and BCIDA Board members. We submitted these potential conflicts to our legal department for review.

- We interviewed BCIDA officials to determine whether they were aware of any other officials' questionable interests in BCIDA contracts.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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