

Empire State Development

Project Tracking Systems and Economic Assistance Program Evaluations

Report 2019-S-48 | October 2021

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Division of State Government Accountability



Audit Highlights

Objective

To determine if Empire State Development (ESD) maintains adequate information systems for the collection of relevant data to effectively manage and report on the economic assistance programs it administers and ensure programs meet desired outcomes. Our audit covered the period from January 1, 2016 through April 16, 2021.

About the Program

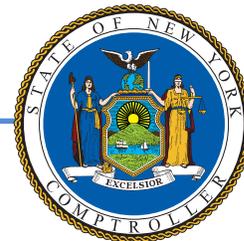
ESD is the chief agency responsible for the coordination of the State's economic development programs. Its mission is to promote a vigorous and growing State economy; encourage business investment and job creation; and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing, and other forms of assistance. ESD offers 57 programs with over 5,000 associated projects. Over the years, ESD has used a mix of desktop applications and server-based platforms to track the growing complexity of its various economic development programs. In 2016, ESD's Board of Directors voted to replace its project tracking system with Microsoft Dynamics (Dynamics) to reduce duplicative data entry, facilitate greater sharing of information, simplify project reporting, and create a central data warehouse. Replacement of ESD's old tracking system and migration of ESD's loan and grant projects to Dynamics was completed in early 2019. ESD budgeted \$2.9 million for the implementation and support of Dynamics, and as of November 2020 had spent just under \$2 million. ESD is statutorily required to report on its economic assistance programs as well as perform periodic program evaluations to assess the effectiveness of certain programs. Notwithstanding these mandated reporting and evaluation requirements, good business practices suggest that all ESD programs be evaluated periodically to ensure they are meeting their goals and fulfilling ESD's mission.

Key Findings

- With few exceptions, such as the film tax credit programs, ESD does not evaluate its economic assistance programs to ensure they are meeting their intended goals and furthering ESD's mission.
- Since implementing Dynamics, ESD has onboarded several programs and continues to assess its programs for future migration. ESD generally collects and maintains relevant information to effectively manage, track, and report on its economic assistance projects; however, after implementing its new project system, ESD continues to use multiple systems to capture such data.

Key Recommendations

- Conduct and document periodic program evaluations of economic assistance programs to assess performance and ensure programs are meeting desired outcomes.
- Identify additional economic assistance programs that would benefit from migration to Dynamics.



Office of the New York State Comptroller Division of State Government Accountability

October 18, 2021

Kevin Younis
Chief Operating Officer
Empire State Development
633 3rd Avenue
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Dear Mr. Younis:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Project Tracking Systems and Economic Assistance Program Evaluations*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 and Article X, Section 5 of the State Constitution as well as Article II, Section 8 of the State Finance Law and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
Access	Microsoft Access	<i>Key Term</i>
Dynamics	Microsoft Dynamics	<i>Key Term</i>
ESD	Empire State Development	<i>Auditee</i>
Excel	Microsoft Excel	<i>Key Term</i>
Rules	New York Codes, Rules and Regulations	<i>Law</i>

Background

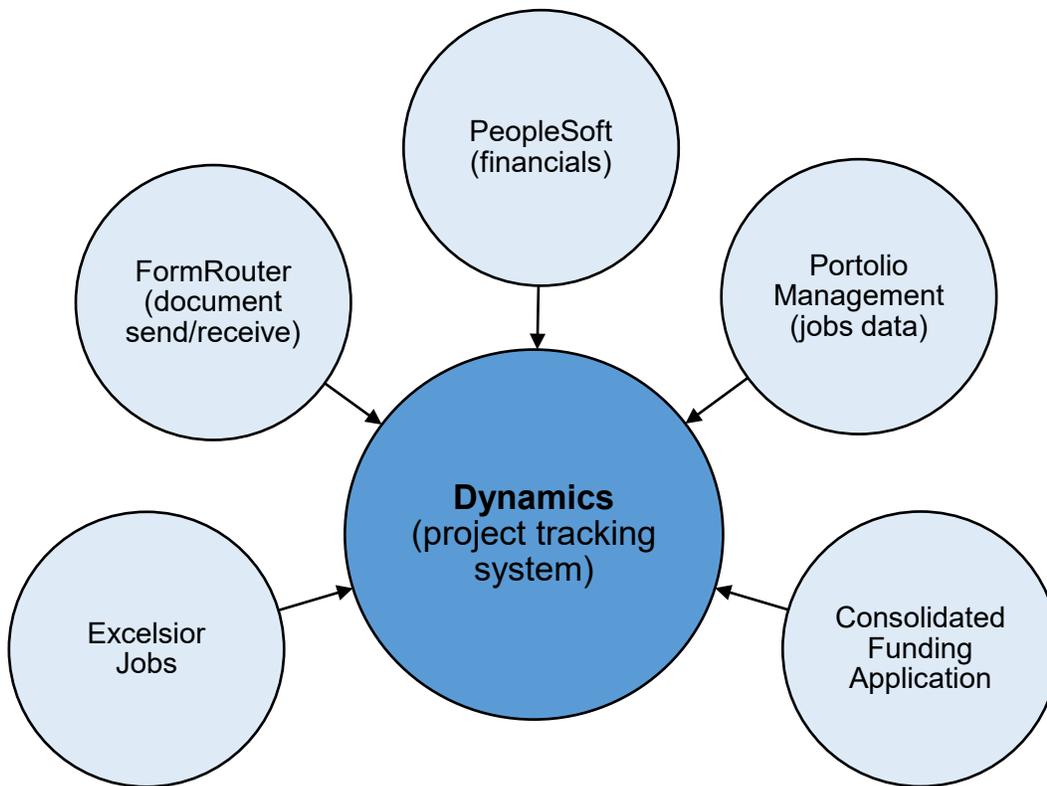
Empire State Development (ESD) is the chief agency responsible for the coordination of the State's economic development programs. Its mission is to promote a vigorous and growing State economy; encourage business investment and job creation; and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing, and other forms of assistance. According to ESD's 2019 Annual Report, it offers 57 programs, encompassing over 5,000 associated projects, with each program having specific objectives, including:

- **Tax Expenditure Programs** that foster investment, jobs, research and development, and overall economic development throughout the State.
- **Loans and Grants Programs** that provide funding through loans and grants to invest in placemaking, workforce, tradable sectors, and innovation.
- **Marketing and Advertising Programs** that market New York State to tourists and business leaders in order to grow its economy.
- **Innovation Programs**, administered by ESD's Division of Science, Technology and Innovation (NYSTAR), that support economic growth through the adoption and/or advancement of technology, working with industries to develop new products and fostering university collaboration and research. Innovation programs support a range of business services, including business incubators and technical and process assistance.

ESD has historically used a mix of desktop applications and server-based platforms to support the growing complexity of its various economic development programs. Since the 1990s, ESD has primarily tracked its programs using an in-house project tracking system as well as desktop applications. Program information was supported by data maintained in PeopleSoft (financial information), FormRouter (send/receive documents), Consolidated Funding Application (Regional Economic Development Council projects), Access, and Excel.

In 2016, ESD's Board of Directors voted to replace its project tracking system to reduce duplicative data entry, facilitate greater sharing of information, simplify project reporting, and create a central data warehouse. ESD hired a contractor to advise on replacement software, and in November 2016, ESD's Board approved the selection of Microsoft Dynamics (Dynamics). ESD retained the same contractor to supervise the design and customization of Dynamics to meet ESD's tracking system needs. In January 2017, ESD hired a separate contractor to migrate projects from the in-house project tracking system into Dynamics and integrate its supporting databases (see figure on p. 6). The transition to Dynamics was completed in early 2019. ESD budgeted \$2.9 million for the implementation and support of Dynamics, and as of November 2020 had spent just under \$2 million.

Dynamics Project Tracking System Integration Points



ESD is statutorily required to report on its economic assistance programs, including program-specific reporting on the Excelsior Jobs Program, START-UP NY Program, and ESD’s film tax credit programs, as well as generalized reporting on its portfolio of economic assistance programs. Furthermore, ESD is mandated to perform periodic evaluations to determine the economic impacts of those programs on the State’s economy. As such, it is imperative that ESD maintain sufficient systems to track relevant information to meet these reporting requirements.

Audit Findings and Recommendations

With few exceptions, ESD has not conducted evaluations of its economic assistance programs to determine their overall success in supporting ESD's mission to grow the State's economy. As such, management cannot be certain of the programs' effectiveness in meeting their desired outcomes. While ESD collects relevant information to track and report on its programs and projects, for some programs, this information is still maintained outside of ESD's primary project tracking system (Dynamics).

To optimize ESD's reporting and ensure that program goals are attained, we believe ESD should continue to identify programs for migration to Dynamics and conduct periodic evaluations of all its economic assistance programs.

Evaluations of Economic Assistance Programs

The Urban Development Corporation Act, the Economic Development Law, and Title 5 of the New York Codes, Rules and Regulations (Rules) all require ESD to perform certain program evaluations every 2 or 4 years assessing the effectiveness of those programs. For example, Parts 170 and 230 of Title 5 of the Rules require ESD to issue a biennial report on its film tax credit programs, including efficiency of operations, compliance with laws and regulations, distribution of funds, and an economic impact study prepared by an independent entity.

Notwithstanding its statutorily mandated reporting and evaluation requirements, ESD should monitor its activities per New York State's internal control standards. Specifically, ESD's executive management should pursue more goal-focused monitoring through the development and review of operational data to determine whether their programs are fulfilling their mission. Further, management should act on the results of such monitoring efforts, which could include establishing new goals or adjusting activities to mitigate risk due to changed circumstances.

However, with few exceptions, ESD does not evaluate its economic assistance programs to determine whether goals are met, identify program successes and/or failures, or apply successful strategies to other programs, as applicable. According to ESD's 2019 Annual Report, for the period April 1, 2018 through March 31, 2019, it disbursed \$1.8 billion in loans, grants, tax credits, and other financial assistance for over 1,400 of its more than 5,000 projects. Without adequate monitoring and program evaluations, ESD management cannot be certain of the effectiveness with which these programs are achieving their goals and having a positive impact on the State's economy. Ultimately, enhancing its monitoring and evaluation of programs will allow ESD management to make informed decisions on its investment strategies.

ESD is mandated to evaluate the economic impact of the film industry and use of its related tax credit programs (Film Production and Post-Production). ESD has completed such evaluation reports, with the latest report reviewing program activity from 2019 and 2020 and indicating that the tax credit programs resulted in the film industry spending significant dollars throughout the State that generated upward of \$1 billion in tax collections. As a result, ESD recommended that the Legislature reduce the film tax credit from 30% to 25% of eligible expenses to ensure the long-

term viability of the program. Additionally, ESD evaluates its business and tourism marketing efforts to assess the effectiveness of its marketing programs. The 2019 statewide tourism economic impact report identified key performance indicators and goals and measured them against actual results. ESD used these results to optimize marketing plans on an ongoing basis. Lastly, pursuant to the Economic Development Law, ESD issues an annual report on its Entrepreneurial Assistance Centers, which evaluates the success of the centers in aiding entrepreneurs to start up new businesses.

Despite the fact that ESD collects relevant data, beyond these specific program evaluations, ESD management does not see the value of conducting similar types of analyses or evaluations of any other of its economic assistance programs. When asked whether such analyses and/or evaluations were performed, ESD officials provided examples of how project and program data was used to make informed decisions. For example, ESD officials stated they have reviewed program data for their Excelsior Jobs Program and START-UP NY Program that showed positive results. According to ESD officials, the reviews led to making recommendations to the Legislature to extend and/or increase funding for additional years. ESD officials also claimed they used the ESD Annual Jobs Report data to reduce loan default rates (e.g., loan payments past 60 days due) by establishing a tiered approach to disbursing allocated project funds based on a grantee's or borrower's achievement of their private investment and job goals. When auditors asked for supporting documentation for these decisions, ESD officials were unable to provide documentation of such evaluations.

In response to our findings, ESD officials stated they use a multi-level process to evaluate programs. Individual projects are evaluated and audited to determine if the project's goals are met, including employment and private investment goals. Evaluations are then performed as part of ESD's extensive mandated reporting of its programs. According to ESD officials, they issue more than 50 quarterly and annual reports each year, which are posted on their website, detailing the State's economic development initiatives and projects. However, while providing valuable program information, most of these reports do not clearly evaluate program effectiveness. Periodic program evaluations would provide ESD management with valuable information to determine if programs are meeting their intended goals and furthering ESD's mission of promoting the State's economy and business growth.

Project Tracking and Reporting

In early 2019, ESD completed implementation of Dynamics as its main tracking system for its loans and grants programs and successfully migrated or integrated other data points. According to ESD officials, as well as our review of programs and projects in Dynamics, the initial intent of Dynamics—to create a central data warehouse to simplify tracking and reporting—has been achieved. Programs not within Dynamics are tracked in either Microsoft Access or Excel databases. Dynamics, together with Access and Excel, allows ESD to effectively track project initiation, progress, and results as well as report on program results in total.

According to ESD’s 2019 Annual Report, issued on January 24, 2020—and the most recent annual report available to us during our audit period¹—it is responsible for the management of 57 programs with over 5,000 associated projects. However, currently only 37 of the 57 programs are fully tracked (e.g., all project activities including outcomes) in Dynamics. Four of the 20 programs not tracked fully in Dynamics have program-level data tracked in Dynamics; however, detailed project-level data is maintained in Excel. The remaining 16 programs are tracked using various software applications such as Excel (NYSTAR – Centers for Excellence) or Access (commercial tax credit programs).

Since ESD has implemented Dynamics, it has migrated additional programs to Dynamics, including the Motion Picture Television Program, travel and tourism programs, and COVID-19 programs. Additionally, ESD continues to assess new uses of Dynamics for possible migration of programs across all its departments. For example, ESD has identified seven additional programs—all of which are currently tracked via Access—it plans on migrating to Dynamics within the next 12 to 24 months, including the film tax credit programs, START-UP NY, and the Life Sciences Tax Credit Program.

ESD officials stated that certain programs remain outside of Dynamics because of data compatibility issues. The data from these programs tends to include investments and loan information where ESD provides funds to independent entities, which then invest or provide services to other companies. For example, NYSTAR funds flow to organizations, which, in turn, provide services to companies for the improvement of their products and/or services.

While ESD has migrated, or plans to migrate, many of its programs to Dynamics, others remain tracked in Access and Excel. With ESD’s many reporting requirements, having its programs and all associated projects in a centralized project tracking system would allow for greater efficiencies in compiling and reporting on relevant program and project data. We encourage ESD officials to continue to identify programs that would benefit from migration to Dynamics.

Recommendations

1. Conduct and document periodic program evaluations of economic assistance programs to assess performance and ensure programs are meeting desired outcomes.
2. Identify additional economic assistance programs that would benefit from migration to Dynamics.

¹ ESD’s 2020 Annual Report was issued on May 5, 2021, after our audit period.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine whether ESD maintains adequate information systems for the collection of relevant data to effectively manage and report on the economic assistance programs it administers and ensure programs meet desired outcomes. The audit covered the period from January 1, 2016 through April 16, 2021.

To accomplish our objective and assess related internal controls, we interviewed ESD officials, reviewed requests for proposals, budgets, board meeting minutes, and contracts associated with the purchase, installation, and implementation of Dynamics. Additionally, we reviewed training materials to gain an understanding of Dynamics' capabilities.

We obtained and reviewed project tracking data for programs tracked in Dynamics as of December 5, 2019 and obtained project tracking data for programs maintained outside of Dynamics (i.e., in Access and Excel) on various dates between December 5, 2019 and August 27, 2020.

To assess the reliability of the data contained in ESD's Dynamics system, we judgmentally selected a sample of 25 of 3,033 projects tracked in Dynamics as of December 5, 2019. Our sample was selected using project approval amounts and the total expenditures compared to approved project amounts. Additionally, we identified 1,583 ESD-approved projects through our review of ESD's Annual Program Reports for State fiscal years ending 2016 through 2019 and verified that each reported project was contained in the Dynamics project data. In our opinion, the data is sufficiently reliable for purposes of our audit objective.

We obtained and reviewed the following reports from ESD's website: ESD's 2019 Annual Report, ESD's Annual Program Reports for State fiscal years ending 2016 through 2020, the Independent Review of the Empire State Film Production and Post-Production Tax Credit Programs for 2019 and 2020, the Economic Impact of the Film Industry in New York State for 2019 and 2020, and the 2019 Economic Impact of Visitors in New York.

Our findings and conclusions are limited to the review of sampled items and are not projected to the entire populations from which they were selected.

Statutory Requirements

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 and Article X, Section 5 of the State Constitution as well as Article II, Section 8 of the State Finance Law and Section 2803 of the Public Authorities Law.

We conducted our performance audit in accordance with generally accepted government auditing standards. 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.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, including some duties on behalf of public authorities. For ESD, these include operating the State's accounting system, reporting ESD as a discrete component unit in the State's financial statements, and approving selected contracts. These duties could be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent audit of ESD's oversight and administration of project tracking systems.

Reporting Requirements

A draft copy of the report was provided to ESD officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety to the end of it. ESD officials agreed with Recommendation 2, and indicated actions they have taken or will take to implement it. However, they disagreed with Recommendation 1 regarding the need for periodic program evaluations of economic assistance programs. Our responses to this and certain other issues are embedded within ESD's response as State Comptroller's Comments.

Within 180 days after final release of this report, as required by Section 170 of the Executive Law, the Chief Operating Officer of ESD shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Agency Comments and State Comptroller's Comments



September 10, 2021

Scott Heid
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Office of the State Comptroller
State Government Accountability
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RE: Response to OSC's Audit Findings Regarding ESD's Project Tracking Systems

Dear Scott Heid:

Thank you for the opportunity to comment on the Office of the State Comptroller's ("OSC") Draft Audit Report 2019-S-48 ("Draft Audit Report") regarding Empire State Development's ("ESD") Project Tracking Systems and Economic Assistance Program Evaluations.

Background

ESD Project Tracking Systems

In 2016, ESD issued a Request for Proposals to implement an agency-wide informational system to assist in the management of economic assistance programs overseen by ESD. The main objectives of implementing a new IT system, specifically, Microsoft Dynamics ("Dynamics"), were: 1) to replace ESD's older Project Tracking System (PTS) that could no longer keep pace with ESD's data demands; and 2) to integrate the Consolidated Funding Application (CFA), which is used for Regional Economic Development Council projects and other ESD projects.

ESD has fully migrated all projects formerly in PTS over to Dynamics, which provides greater flexibility, data accuracy, and increased functionality. ESD has also migrated the CFA projects to Dynamics, allowing for the automatic transfer of project information into Dynamics for review and action by ESD staff, which reduces manual labor and the potential for data entry errors.

State Comptroller's Comment – As discussed on page 8 of the report, ESD's loans and grants programs, previously tracked in PTS, migrated to Dynamics. However, certain other programs and projects tracked outside of PTS have not migrated to Dynamics.

ESD has also successfully used Dynamics to track, analyze and manage projects across the agency. Notably, Dynamics proved particularly helpful during the COVID-19 pandemic by allowing ESD to quickly process PPE applications and grants and by creating a ticketing system

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for essential business questions for efficient review and decision making by ESD Staff.

ESD Reporting

ESD is statutorily mandated to report on its economic incentive programs. The ESD Reports Page on its website contains information on program activities and includes more than 50 quarterly and annual reports that ESD provides on a consistent basis, pursuant to statutory reporting requirements. These reports detail the latest activity in New York State economic development projects and initiatives. Inherent in the drafting of these many reports is ongoing analysis of ESD's programs and projects. ESD's public reports not only present the activity within various programs but also provide ESD, the Governor's Office, the New York State Legislature, and the public with a broad view of the programs' performance across the State and in various regions.

ESD also recently launched its Database of Economic Incentives, which provides three years of active projects; it will be added to and updated quarterly. The Database of Economic Incentives provides a searchable, downloadable database, with 24 data fields to monitor project-level metrics. Fields in the Database of Economic Incentives include, but are not limited to: project status, whether the project is in compliance, reason(s) for non-compliance, job-creation commitments, and actual jobs created to-date.

State Comptroller's Comment – The Database of Economic Incentives (Database) was launched on May 6, 2021, at the end of our fieldwork, and, as such, was not included in our audit. As ESD notes, the Database only contains active projects (projects approved by ESD since January 1, 2018). As of September 15, 2021, there were 1,111 project rows in the Database, representing 1,084 unique project numbers. (An ESD Database snapshot cites 1,074 unique projects.) As noted in our report, ESD's offers 57 programs, encompassing over 5,000 associated projects. Therefore, the Database does not include metrics on roughly 4,000 other projects. Moreover, the data is not easily aggregated. A project may have several funding sources. Therefore, a project may be listed several times in the Database. Simply summing all projects without accounting for the fact that a project is listed twice to reflect its receipt of multiple forms of assistance would result in the double-counting of certain project-related metrics, such as job commitments. It is also unclear which ESD program specifically funds each project. Assistance information is only reported as "grant," "tax credit," or "loan." Furthermore, the Database only reports the current project metrics and not the historical revisions to any metrics. Therefore, a user would not have enough information and context to determine program effectiveness.

OSC's Recommendations:

Following this audit process, OSC made two recommendations.

A. Identify additional economic assistance programs that would benefit from migration to Dynamics.

ESD agrees with this recommendation, which was already occurring prior to the audit. As

noted in earlier communications, ESD has added numerous programs to Dynamics since its launch in 2019 and continues to explore how Dynamics may further benefit the agency's work. The Dynamics Team: (1) meets on a regular basis to discuss improvements, enhancements, and new program implementations, as well as system-wide changes to how ESD uses Dynamics, such as training, system configuration settings, and the addition of new data fields or features; and (2) continually analyzes additional programs that may benefit from migration into Dynamics. For instance, as noted in the Draft Audit Report, in the next 12-24 months, ESD will be migrating seven programs into Dynamics that had been tracked in Access.

ESD also agrees with OSC's Draft Audit Report where it correctly concludes that "the initial intent of Dynamics – to create a central data warehouse to simplify tracking and reporting – has been achieved. Programs not within Dynamics are tracked either in Microsoft Access or Excel databases. Dynamics, together with Access and Excel, allows ESD to effectively track project initiation, progress, and results as well as report on program results in total."

Of note, because Dynamics is a widely used and commercially maintained software application, its owner, Microsoft, continues to roll out product improvements that will further increase the value of the program over time.

B. Conduct and document periodic program evaluations of economic assistance programs to assess performance and ensure programs are meeting desired outcomes.

OSC's assertion that, "With few exceptions, ESD has not conducted evaluations of its economic assistance programs to determine their overall success in supporting ESD's mission to grow the State's economy" is incorrect.

ESD regularly engages in both project-level and program performance evaluations and routinely reports the results to the public. As the Draft Audit Report acknowledges, ESD oversees 57 programs, each with its own specific objectives, and provides over 50 quarterly and annual reports on its website, as well as the Database of Economic Incentives which, as mentioned, contains project-level information and metrics. This reporting is intended to assess performance and ensure that programs are meeting desired outcomes.

In the Draft Audit Report, OSC focuses on only a small subset of statutorily mandated ESD evaluations: a bi-annual independent review of the State's film tax credit program; an annual report of Entrepreneurial Assistance Centers; and, the Statewide Tourism Impact Report. OSC then incorrectly extrapolates that aside from these reports, "ESD management does not see the value of conducting similar types of analyses or evaluations of any other of its economic assistance programs."

State Comptroller's Comment – Following our requests for supporting documentation of other evaluations or assessments of programs, ESD was unable to provide evidence of any other evaluations or assessments beyond those referenced in the audit report.

On the contrary, ESD continues to conduct and document program assessments and evaluations such as the published reports, which shape its work with the Governor’s Office and Legislature as to the potential discontinuation, extension, or modification of ESD programs – as evidenced by the fact that, without exception, every annual State budget includes the addition, deletion and modification of ESD programs, while additional reforms are also often effectuated through new legislation, rulemakings, or amendments to program guidelines and regulations.

State Comptroller’s Comment – This does not align with comments from legislators during annual budget hearings. Specifically, during the 2021 Executive Budget joint legislative hearing on economic development, the Senate Finance Committee questioned ESD on whether or not it evaluates the use of taxpayer dollars that go into programs and the new economic activity and new job opportunities created for the State. Furthermore, the Senate Finance Committee stated, “I’m just not sure that if we take a hard look, we’re going to be so happy with the results. But the fact is if we don’t take a hard look, we’re not going to learn from the mistakes we’ve made either.”

In addition, it is important to note that the methodology most effective for evaluating one State program may not be appropriate for other State programs. For instance, the film tax credit program is an as-of-right program: if applicants meet the criteria, ESD has no discretion in providing the credits. Because this program is based on uniformly applied award criteria and economic activities, an independent evaluation of that program provides the Legislature and the public with a meaningful assessment of how it is performing.

State Comptroller’s Comment – Our audit report neither recommends nor suggests that ESD evaluate all programs’ effectiveness using a uniform methodology.

In contrast, discretionary programs, like the Excelsior Jobs Program, involve project-specific awards and already benefit from front-end analyses to determine if the cost of a potential project will result in acceptable economic benefits to the State. ESD conducts this front-end analysis before any funds are committed, through a benefit-cost analysis model, to determine the return on ESD’s investment relative to pre-established benchmarks. Moreover, the Excelsior Jobs Program is a pay-for-performance program: no funds are awarded if the job creation and investment commitments – as assessed by the cost-benefit analysis – are not met. In this way, upfront evaluation already ensures that only projects that achieve their desired objectives will be rewarded with tax credits, and the evaluation is inextricably linked to the issuance of the tax benefit. And finally, ESD reports on the performance of the Excelsior Jobs Program every quarter in a format and methodology suitable for that program.

State Comptroller’s Comment – Our audit did not assess ESD’s controls related to individual payments. Rather, we assessed ESD’s activities to evaluate the performance of its economic assistance programs on a broader scale.

OSC’s assertion that most of ESD’s reports do not clearly evaluate program effectiveness is also incorrect. The following is a brief and non-exhaustive list of instances in which ESD’s reports speak to program evaluation and performance include the following excerpts.

ESD’s individual program reports contain evaluations of program performance. For instance:

- *Life Sciences Initiative Annual Report*: “A primary goal of the Life Science Initiative is to fast track the commercialization of New York State’s unparalleled academic research assets and unlock an untapped pipeline of innovation – while ensuring that homegrown startups remain and grow in New York. To date, we have made significant progress toward this goal. In 2013, for every dollar of NIH grant funding, New York State received just \$0.06 in venture capital invested in life science companies. This was compared to \$1.27 and \$1.32 of venture funding per NIH dollar in Massachusetts and in California, respectively. This ratio increased fivefold by 2016, when New York saw \$0.30 cents in venture investment in life science companies for every dollar of NIH grant funding. And in 2020, New York received \$.73 in venture capital for every dollar of NIH funding, a clear indication that private investors are viewing New York as an increasingly attractive center for emerging life science companies. As the life science industry continues to expand in New York, investment is expected to grow and approach that seen in California and Massachusetts, states that have been investing heavily in life sciences for many years.”

ESD’s reports provide evaluations on a regional level:

- *Regional Economic Development Councils*: The Regional Economic Development Councils produce annual progress reports that track the progress of REDC-funded projects as well as detail the effects of the various regional priorities and strategies employed, the financial investments made, the areas that have seen progress as a result of the strategies and investment, and those that require additional effort and resources. Performance objectives are established and assessed at the regional level as part of the State’s bottom-up economic development strategy.

ESD’s reports provide evaluations of ESD’s overall mission and of its programs:

- *ESD Annual Report*: This comprehensive economic development report provides broader context on ESD’s mission and investment strategies, while also offering evaluations of statewide program areas and their greater impact. Examples include:
 - Division on Minority and Women’s Business Development: “In FY 2020, the state reached 29.51% MWBE utilization, its highest ever. The MWBE Program has awarded the highest dollar value of contracting opportunities to MWBEs at nearly \$3.14 billion this past fiscal year—up from less than \$100 million in 2010—and has developed one of the largest public directories of MWBE-certified firms.”
 - START-UP NY: “Since creation of the program, businesses in the START-UP NY Program have generated more than \$672 million in economic activity, with investments of \$140 million, paying almost \$533 million in wages and utilizing less than \$33 million in business and PIT tax benefits.”

- *ESD Annual Jobs Report (2019)*: “In 2019, 206 of the 216 projects (95.4%) in the portfolio met or exceeded their employment requirements, the highest level of compliance to date. Funds disbursed to these projects supported the retention of 42,032 jobs and the creation of 9,561 net new jobs in New York State. The average cost per job created or retained within the portfolio is approximately \$5,023.”
- *ESD Database of Economic Incentives (Snapshot and Data Dictionary Document)*:
 - ESD Loan and Grant Projects: “From 2011 to 2019, ESD’s loan and grant projects have a job creation/retention success rate of 117%. This means that through ESD’s loan and grant investments, the number of jobs committed to in a given year, measured against the jobs actually created/retained in that same year, shows a consistent surplus of created jobs through these projects.”
 - Excelsior Jobs Program: “ESD’s Excelsior Jobs Program, which provides job creation and investment incentives to firms in targeted industries, has an average job creation success rate of 119% from 2011 to present. This means that, through ESD’s Excelsior Jobs Program tax credit investments, the number of jobs-committed to in a given year, measured against the jobs actually created in that same year, shows a consistent surplus of created jobs through these projects...The Excelsior Jobs Program encourages businesses to expand in and locate to New York while maintaining strict pay-for-performance standards to guarantee that businesses deliver on job and investment commitments before receiving tax credits.”
- *ESD Monthly Dashboard of Economic Indicators*: In addition to assessing its programs and projects, ESD also assesses the overall performance of the New York State economy, including through documents such as ESD’s Monthly Dashboard of Economic Indicators.

State Comptroller’s Comment – The examples ESD references are snapshots of information. The information does not include pre-established performance metrics and benchmarks for evaluating program effectiveness. Rather, the reports included selected program statistics, allowing the reader to form their own conclusions on performance without knowing or having program goals to evaluate effectiveness.

Before the COVID-19 pandemic hit, New York State was in the midst of a decade-long period of economic expansion. Over 1.2 million private sector jobs were added from 2010 to 2019. Upstate added an average of nearly 20,800 total jobs each year from 2010-2019 after losing an average of 12,300 jobs each year from 2000-2010. After 120 consecutive months of private sector job growth, private employment in NYS hit an all-time high of 8.36 million in February 2020. Through ESD’s investments, areas of the State without prior access to broadband are able to engage in the twenty-first century economy, downtown and Main Street areas statewide are being revitalized, and sectors such as high-tech and innovation are growing more quickly than ever, with venture investments growing at record levels. Furthermore, in 2019, more businesses filed to do business in New York State than in any other year, and the State ranked fourth in the nation in number of startups, thanks in part to support available through

Empire State Development.¹

ESD works diligently to provide economic development incentives to communities, businesses, entrepreneurs and non-profits for the betterment of New York State, and it also recognizes its role in evaluating and reporting on those programs. And ESD works, and will continue to work, with both the Executive and Legislature to advance worthwhile programs to accomplish this goal.

ESD thanks you for the opportunity to comment on the Draft Audit Report.

Thank you,

Felisa Hochheiser

Felisa Hochheiser
Director of Compliance

¹ See 2020 Annual Report - Empire State Development.

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