Syracuse Budget Hearing
Testimony
On Taxes and Economic Development Policy in the 2008-2009 State Budget Proposal

Provided by
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I would like to thank you for the opportunity to speak here today. My name is Ron Deutsch and I am the Executive Director of New Yorkers for Fiscal Fairness (NYFF). NYFF is a statewide non-profit organization focused on promoting fair taxation for all NYS residents within the context of the state budget process.

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TAXES

Low and middle-income families in New York pay a far higher share of their income in state and local taxes than the richest New Yorkers. The richest 1% - those with an average income of $1.6 million – pay only 9.1% of their income in state and local taxes; after the federal offset, the effective tax rate is only 6.5%. The tax rate on families in the middle-of-the-income distribution ($27,000 and $44,000) is 11.9%; 11.6% after the federal offset. The poorest New Yorkers – those below $15,000 – pay at the highest tax rate, 12.6%. (see chart)

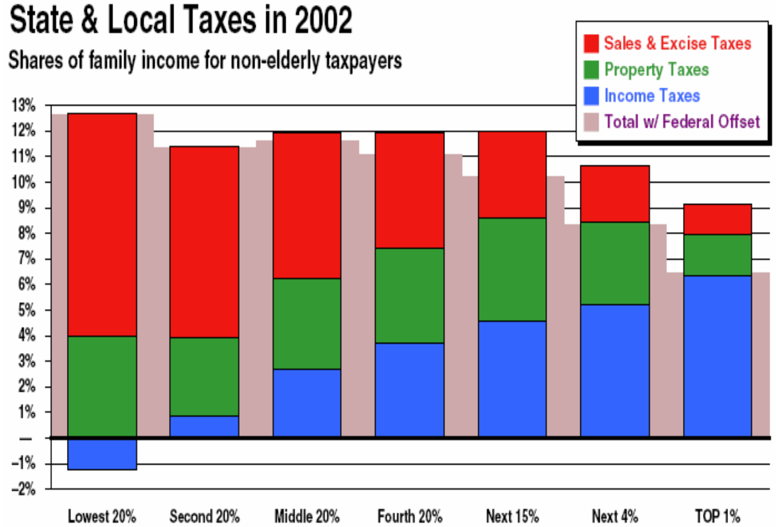
Since the state began reducing the top marginal rate on the personal income tax (PIT) cuts in 1989, tax regressivity has actually increased. Approximately 40% of the PIT cuts went to the top 5% of New York wage earners. While the introduction of a state earned income tax credit has helped, much of that benefit has been eaten up by increased sales and property taxes.

Overall, state and local taxes average 12.0% of income (2nd highest nationally), compared to a national average of 10.10% (Maine is highest at 13.0% ((Source: Tax Foundation)).

New York

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



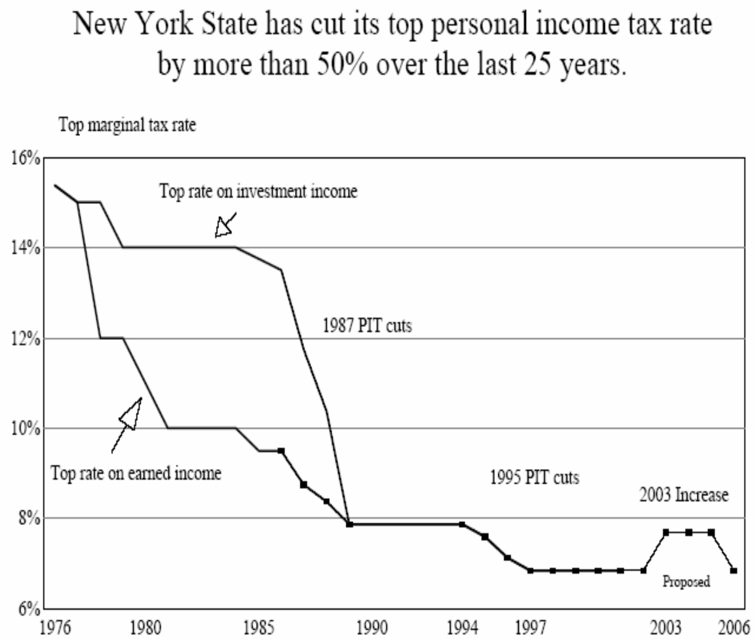
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%: Next 15%	Next 4%	TOP 1%
Income Range	Less than $15,000	$15,000 – $27,000	$27,000 – $44,000	$44,000 – $74,000	$74,000 – $160,000	$160,000 – $634,000	$634,000 or more
Average Income in Group	$8,700	$20,700	$34,900	$56,800	$102,000	$250,000	$1,663,000
Sales & Excise Taxes	**9.5%**	**7.5%**	**5.7%**	**4.5%**	**3.4%**	**2.2%**	**1.2%**
General Sales—Individuals	3.9%	3.6%	2.9%	2.5%	1.9%	1.3%	0.7%
Other Sales & Excise—Ind.	2.7%	1.6%	1.1%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.9%	2.3%	1.7%	1.3%	0.9%	0.6%	0.4%
Property Taxes	**4.4%**	**3.0%**	**3.5%**	**3.7%**	**4.1%**	**3.2%**	**1.6%**
Property Taxes on Families	3.9%	2.7%	3.1%	3.2%	3.5%	2.7%	0.7%
Other Property Taxes	0.5%	0.4%	0.4%	0.5%	0.5%	0.6%	0.9%
Income Taxes	**–1.2%**	**0.8%**	**2.7%**	**3.7%**	**4.6%**	**5.2%**	**6.3%**
Personal Income Tax	–1.3%	0.8%	2.6%	3.7%	4.5%	5.1%	6.0%
Corporate Income Tax	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	**12.7%**	**11.4%**	**11.9%**	**11.9%**	**12.0%**	**10.6%**	**9.1%**
Federal Deduction Offset	–0.0%	–0.1%	–0.3%	–0.8%	–1.8%	–2.3%	–2.7%
TOTAL AFTER OFFSET	**12.6%**	**11.3%**	**11.6%**	**11.1%**	**10.2%**	**8.4%**	**6.5%**

Note: Table shows 2002 tax law at 2000 income levels.

INSTITUTE ON TAXATION & ECONOMIC POLICY, JANUARY 2003

New York has particularly high property taxes ($1,402 a year on average, number 4 in the country), which negatively impact low and middle income families, since they spend a high percentage of their income on housing. However, in recent decades New York has primarily cut the personal income tax instead, which mainly impacts higher income households.

New York has substantially reduced its top personal income tax rates over the last two and a half decades. New York State's top personal income tax rate was 15.375% in the early and mid-1970s. At that time, New York had the 3rd highest income tax rate of all the states with income taxes. The current rate of 6.85% places New York 14th among the 42 states with personal income taxes.



It is also important to realize that the states with which New York has the most direct economic competition, Connecticut and New Jersey, have moved in the opposite direction. New Jersey's top rate is now 8.97%, more than three and a half times higher than its mid-1970s rate and, since 1991, Connecticut has had a broad-based personal income tax, the top rate of which was increased from 4.5% to 5% in 2003.

NYS should focus on shifting the burden from the property tax (regressive) to the income tax (progressive). This can be done by increasing the top marginal rates on the wealthiest wage earners. It is unfair that someone making $45,000 pays the same tax rate as someone making $4.5 million.

Corporate Taxes

The share of total state taxes contributed by the corporate income tax has steadily declined from 10.5% in 1979 to 7.6% in 1989 to 6.5% in 2000. We are now slightly above the national average of 6.3%. The state has added so many loopholes to our corporate tax program that New York City, which has rejected many of the loopholes, now collects more corporate income tax than the State ($2.817 billion vs. $2.258 billion in 2001-02). (Citizens for Tax Justice)

Some of the largest companies doing business in NYS are paying little or nothing in state corporate income taxes. The corporate loopholes that exist at both the federal and state level have resulted in some large corporations actually having a negative tax liability. According to a report from the Institute on Taxation and Economic Policy (2005) the many major companies, despite record profits, paid little or nothing in state corporate taxes between 2001-2003.

Last year the state passed a version of Combined Reporting which will help make sure that the large corporation doing business in NYS pay their fair share of taxes.

Economic Development

Empire Zones

Empire Zones' biggest breaks have mostly benefited big corporations and the politically savvy. Buffalo, home to enterprise zone pioneer Congressman Jack Kemp, has been witness to much of the waste and largesse.

Big deals with Geico and Bass Pro have stolen headlines where multiple concessions were made to bring in business. M&T Bank and HSBC save more than $4 million per year combined. Downtown law firms Cellino and Barnes and over a dozen other law firms receive sales tax exemptions.

According to Frank Mauro of the Fiscal Policy Institute, "Empire Zone(s) [are giving] benefits to companies to do what they were going to do anyway, where they want to do it." University of Iowa Professor Alan Peters, who has studied enterprise zones nationwide adds "It looks to me like New York State has developed a program that really isn't an enterprise zone program, but a way of giving tax breaks and incentives to businesses." (Buffalo News, Jun. 4) The enterprise zones are hardly focused on the rejuvenation of once-prized locales, but are instead focused on bringing in business, regardless of the price. This can be seen in the recent AMD deal, which will cost more than $1,000,000 per job without revitalizing an urban center, and subsidizes sprawl. The Geico deal featured many egregious missteps, relaying up to the governor. According to Geico President Tony Nicely, "the governor, would do whatever it would take to make sure we did." (Buffalo News, Jan. 4) How can a program that is supposed to foster economic development for the benefit of the New York *citizens* become simply a tax giveaway and lottery *businesses*?

More than two-thirds of the companies seeking tax breaks failed to meet their job creation promises, 23% even lost jobs.

Based on a study in Buffalo, the average jobs created by companies participating Empire Zones pay an average of $10 an hour, nearly $3 below the region's median wage, and there is little accountability for companies who claim the credits but create no new jobs.

Fix the Zones

Making the Empire Zones live up to their promise of revitalizing depressed areas will require *action in Albany* and every year that passes without reform is another year of wasted resources. Empire Zones can still have a role in helping New York improve its economy, the depressed regions and additionally protect the environment from additional suburban sprawl. Here is an **11-Point Plan to Reform the Zones**:

1. Implementing full, annual disclosure of the benefits received and the jobs provided by each participating business.

2. Strengthening rather than weakening the program's focus on the state's neediest areas by prohibiting zone designations in areas other than census tracts that meet economic hardship criteria and immediately adjoining census tracts in the same community. Similarly, the extension of existing zones boundaries into areas other than census tracts meeting economic hardship criteria should be eliminated.

3. Ending the current annual boundary amendment process (the "we bring the zone to you" approach) that has opened the operation of many of the state's zones to favoritism and corruption.

4. Halting (recapturing) the benefits going to businesses that used re-incorporation and other ruses to get into the program.

5. Tightening the program's certification requirements to ensure that firms that violate (or have, in recent years, violated) labor, health and safety, environmental or other important statutory safeguards are not certified to receive zone benefits; or, if they are already certified, that they lose such certification

6. Requiring the Commissioners of Labor and Economic Development to hold well-advertised and timely public hearings on all proposed business certifications, all contested de-certifications and all proposed boundary amendments. (Note: Hearings on boundary amendments are currently required but the Commissioner of Economic Development views this requirement as being met by the hearings held by local legislative bodies on the local laws making those boundary amendments. Public hearings are not currently required on business certifications and decertifications.)

7. Requiring that all of the tax breaks and other benefits available to participating firms be based on the number and quality of the jobs actually created. (NOTE: Some but not all of the program's benefits are currently tied to the number of jobs actually created.)

8. Strengthening the program's job quality standards and the application of these standards to all zone benefits. (NOTE: Under current law employers are eligible for an enhanced wage credit [$3,000 as opposed to the ordinary $1,500 wage credit] for a targeted employee who is paid an hourly wage of at least 135% of the minimum wage for more than half of the period involved.)

9. Limiting the total amount of all tax benefits available "per employee," in any given year, to the lower of (a) $10,000 or (b) 20% of the total of the wages paid to the employee involved and the health insurance premiums paid on behalf of such employee.

10. Apply de-certifications for cause to all periods beginning with the earliest documented date of the infraction on which the de-certification is based and require that any benefits received during such period by a decertified firm should be subject to mandatory repayment.

11. Ensure that the program promotes revitalization of the State's existing cities, towns and villages, efficient use of municipal services and avoids the environmental problems associated with unplanned sprawl development, by limiting zone designations and boundary revisions to areas that are served by public sewer or water infrastructure, previously developed areas, or brownfields.

Industrial Development Agencies

The development of globalization coupled with the increasing price of medical coverage is pinching the job market throughout New York and the US. As a response to this competition in the labor market, the state’s many Industrial Development Agencies (IDAs) have been charged with expanded powers to attempt to attract out-of-state businesses using tax subsidies. In return for the subsidies, businesses promise job growth, which in turn is supposed to spur further economic development. The IDAs have had a bevy of issues ranging from grossly misused funds to a serious lack of accountability. For New York to provide an attractive business climate for its workers and not just a system of corporate welfare these issues will need to be addressed.

Over and over again investigations and audits have found repeated abuses of the IDAs. These include cross jurisdictional piracy, failed job creation and many gross misuses of funds. The County of Monroe IDA has felt a large amount of pressure as several egregious subsidies were doled out to the Elmwood Dental Group and the DelMonte Lodge; who received subsidies for dental equipment purchases and the construction of a spa, respectively. These two companies are only two of hundreds of companies who similarly abused the IDAs throughout the state for free money. The numbers available also back up these examples. In the County of Monroe 63% of businesses receiving tax breaks did not meet job creation goals. Statewide in 2004 40% of businesses with subsidies did not create any new jobs.

The Geico deal made in Amherst brought up another issue. As they looked to relocate to the State of New York they saw a great employment opportunity due to the sound infrastructure and competitive labor market. Geico decided the Buffalo region was right, but the incentives provided by the IDA of Amherst managed to undermine a chance to bring the big employer to the developed industrial city. Instead, they located themselves at a new office park in the suburbs. This was not just intrastate competition, and subsequently bad for the taxpayers. It was against the law as well. These are failures that hurt the taxpayer the most.

Service sector business additionally does not bring new capital into the region; it has no place in this program for subsidies. For the economy to grow most efficiently, more productive manufacturing and hi-tech industry should have been receiving such funds. Our priorities need to be focused on making New York an industrial center and preventing more waste of taxpayer money.

IDAs have been overwhelmed by accountability issues, some so severe that 42% of subsidized businesses did not even report employment rolls in 2002, but recent reforms are beginning to make a change. The Public Authorities Accountability Act of 2005 along with more a more active attempt at improving the quality of reporting – only 12% of businesses didn't report rolls in 2004 (before the new legislation was enacted). The new reforms have focused in on the many attempts of lobbyists and local business members to attain positions on the boards of the IDAs, and provided some additional reporting, and auditing standards. The additional reporting standards require IDAs to account for financial, employment, the board of directors and projects undertaken in an annual report. But the OSC – as well as many public interest groups – still see large gaps left uncovered by the new law.

8 Reforms to IDA Programs

1. **Ensuring Broader Oversight and Coordination** by enforcing new and more stringent guidelines on board membership. We must ensure that the boards blend business, organized labor, educational, and environmental representatives to ensure the local community to have a say in development. IDAs within the same geographic area (e.g. county, village and city IDAs) must coordinate and approve of any plans which are within their borders.

2. **Community Impact Reports (CIRs)** can be an essential tool for assessing the potential positive and negative impacts a proposed project will have for the local community. The CIR will be an independently conducted study looking into the quality of the jobs created or retained, the effect on housing in the area, the effect on other businesses, the effect on open space and the effect on local infrastructure, such as transportation, schools and water and sewers. Approval

should be conditional on the completion of a satisfactory CIR and on an agreement within the contract to address recommendations made in the CIR.

3. **A set of Basic Standards** for businesses applying for IDA assistance should be enhanced. Mandating basic employment, community, civil rights and environmental benefits standards on subsidy deals will ensure that subsidy recipients create quality jobs, meet community needs, and have a positive environmental impact in our neighborhoods. Such standards would include paying a living or prevailing wage, hiring locally when possible, protecting greenfields and community benefits standards. We should further ensure that IDA benefits are not given to firms that violate state laws including those dealing with environmental quality, worker safety, and fraud similar to that governing the Empire Zones.

4. **Improving Reporting Requirements** on subsidy contracts by implementing statewide reporting standards. This would assist local agencies make future subsidy choices by requiring data to be reported on job creation and retention, Payments in Lieu of Taxes (PILOTs) and information on all government assistance provided to a project (not just assistance provided by the IDA).

5. **Requiring Enforceable Clawback Penalties** for IDA recipients who fail to meet the agreed-to contractual obligations. Clawbacks are a type of penalty through which a city or county cancels, reduces, or recovers a subsidy when the recipient fails to deliver on its contract obligations. With stronger reporting requirements, the locality will have the abilities to determine if the business is in breach of contract.

6. **Increasing the Effectiveness of IDA Public Hearings** which currently come at the end of the IDA review process after all of the negotiations between the business and the IDA have already occurred and right before the approval vote is to happen. Often the board members do not show up at the public hearings. The public must be given earlier notice of applications that have been filed with the IDA and some idea as to when those projects are likely to come up for a vote and board member who do not show should not be allowed to cast a vote. A possible model for this is the scoping session requirement under the State Environmental Quality Review Act.

7. **Ensuring that IDAs are run transparently** by requiring each IDA to present records of their standard operations, hearings on deviations and copies of approved deviations are sent at least annually to the state, the chief executives and all board members of affected local governments and that these policies and any changes be made available to the public and posted on the IDA's website. Each IDA should also maintain and make readily available all records of the schedule of PILOT payments, late payments, debts and the allocable taxing jurisdiction. The IDAs should make certain the payments are transmitted to the treasuries of these local governments.

8. **Establishing meaningful penalties for IDAs that violate Article 18-A's anti-piracy provisions**. We must ensure that corporate piracy such as that conducted by the Town of Amherst IDA against the City of Buffalo does not go unpunished. Instead of holding the corporation solely accountable and forcing them to pay back Amherst, a penalty should be assessed on the IDA such as suspension from making deals for a meaningful period of time (six months) and escalate per violation. The return payment should not be made to the locality in violation, but rather to the wronged party. These reforms would hopefully deter violations of article 18-A.

Microenterprise/Entrepreneurial Development

The microenterprise development industry has defined a microenterprise as a business with five or fewer employees requiring $35,000 or less in start up capital, and does not have access to the traditional commercial banking sector.

Microenterprise development is seen as a holistic approach, embracing poverty alleviation, human development and economic development strategies. For this reason, a wide range of institutions - including stand-alone microenterprise development organizations, community development corporations, organizations with loan funds, community action agencies, women's organizations, community development banks and credit unions, housing and social service programs, and government agencies at the local, state, and national levels - are involved in microenterprise development.

After a decade of operation, microenterprise development programs in the U.S. are creating jobs, generating income, building assets, and enhancing skills. These results are particularly impressive considering the fact that a significant proportion of assisted microentrepreneurs are individuals facing obstacles presented by race, gender, ethnicity, income, and location barriers as well as job market fluctuations. Whether the business is the sole source of family income or a crucial supplement to family earnings, microenterprise development has put many low-income families on the road to self-sufficiency.

By generating new economic activity, microenterprise also increases public tax revenues and private incomes, thereby reducing dependence on public assistance, which in turn helps to shrink public budgets. These significant social and economic benefits far outweigh the cost of public and private investment in microenterprise development.

Why Fund Microenterprise Development*?* According to the U.S. Census, Microenterprises account for fully 88% of all businesses in NYS and employ approximately 20% of the state's workforce. Sole proprietorships (a business without employees) account for 72% of all businesses in NYS and have had an average annual growth rate of 3.36% between 1997 and 2003 (equates to an average of 45,000 new businesses per year). There are currently 1.6 million microenterprises operating in New York generating approximately $58 billion in revenues annually. Microenterprise development should be viewed as an economic development priority not an afterthought. The emphasis of New York's economic development policy is on attracting and retaining large businesses while small business development gets only a fraction of the resources.

Empire State Development Corporations Annual Report to the Legislature (2000) on the state funded microenterprise development program suggested the following:
State funded programs conservatively generate $2 in tax revenue for every state dollar invested in the program;

Program costs the state only $1,585 per job created (Compared to the Jobs Now Program which averages $10,000 per job and the Job Development Authority that averages $35,000 per job); Programs should be expanded to areas of the state that currently lack coverage and grants to these training organizations should increase to maximize federal matching dollars.

Microenterprise development is one of the most promising strategies to lift people out of poverty and assist them in developing assets. New York State currently lags the rest of the country in providing support to microenterprise practitioner and training organizations. Consider these facts from the Corporation for Enterprise Development's Asset Development Report Card:

New York’s small business development rate: 11% of New York’s workforce owns the business at which they work (New York ranks 32 out of 50)
Minorities own businesses at only 12% the rate that whites own businesses in New York
4% of women own their own business
The average minority-owned business in New York had sales and receipts of $437,171 in 1997 (the value of those businesses is much less than the value of minority businesses in other states)
The average women-owned business in New York had sales and receipts of $15,100,000 in 1997

Small business development is the lifeblood of the New York State economy. The Entrepreneurial Assistance Program (EAP) is one of the most successful small business development programs run by New York State. EAP is operated by the Empire State Development Corporation and provides intensive training and technical assistance to persons wanting to start their own small business. EAP is different than other small business development programs in that it focuses its outreach to women, minorities, individuals with disabilities, and dislocated workers. There are 22 EAP Centers located strategically around the state. These centers provide training that takes participants from the inception of a business idea, through the formulation of a business plan and finally to securing funding for start-up. The technical assistance provided to these businesses does not end when the business is started. EAP centers stay with their start-ups for a period of five years. If the business encounters problems they can always turn to the EAP Centers for assistance.

A 2000 ESDC cost benefit analysis of the program revealed conservatively that New York State received $2 in personal income and sales tax for every $1 invested in the program. Every year, without fail, the Governor proposes to eliminate funding for this vital and cost effective program.

There are also other programs operating throughout the state that are doing incredible work. There are numerous partnerships between Community Loan Funds, CDFIs, Academic Institutions, Community Action Programs, Community Development Corporations, County Governments, Credit Unions, Banks, and other microenterprise development organizations. These partnerships allow organizations to maximize community resources and avoid duplication of services.

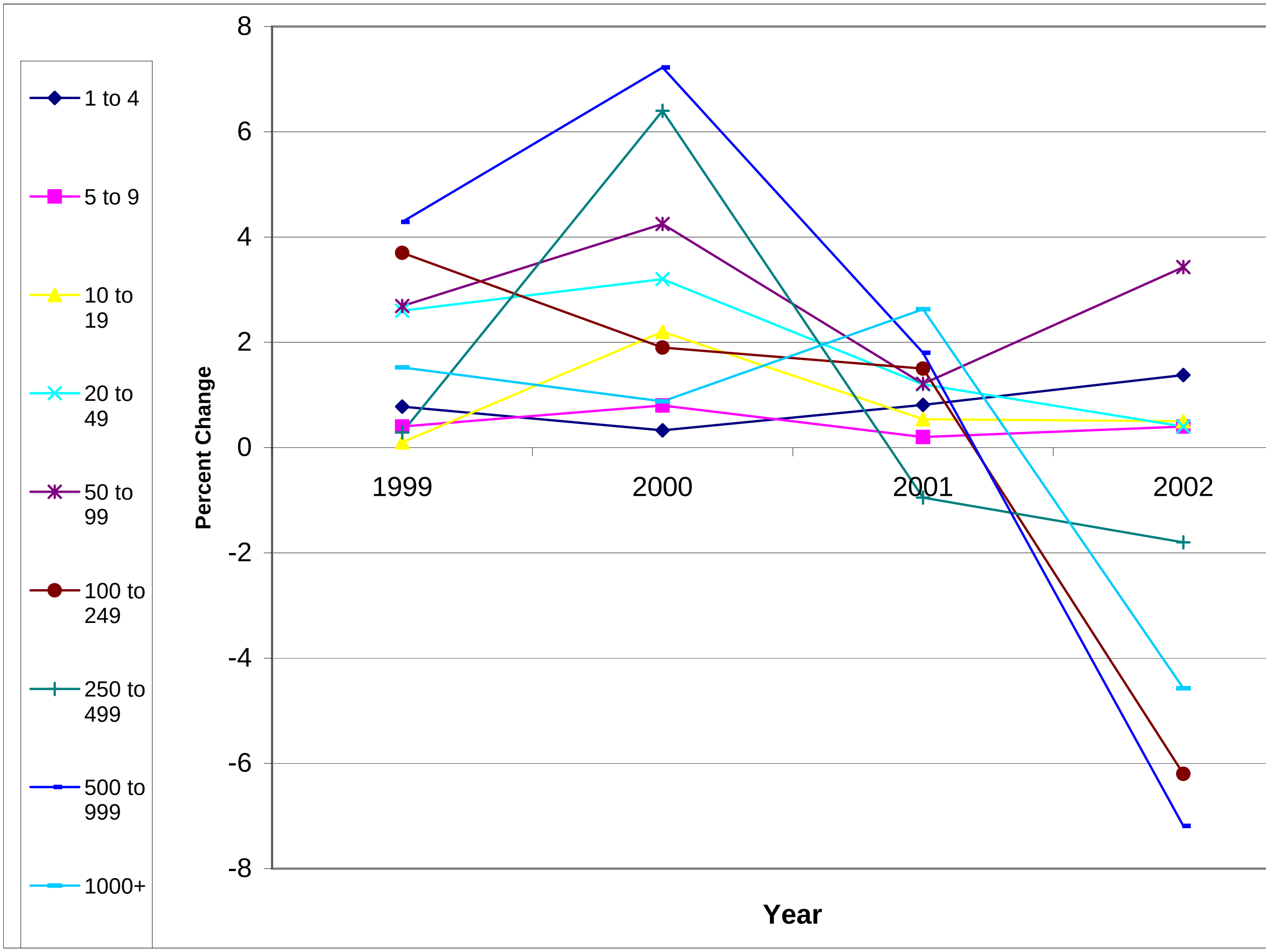
Sole-Proprietorships in New York:

A Growing and Increasingly Significant Part of New York States Economy

Year	Sole-Proprietorships	% Increase from previous year
2002	1,302,672	3.40%
2001	1,258,822	4.60%
2000	1,202,943	2.90%
1999	1,168,595	2.70%
1998	1,137,871	3.20%
1997	1,101,776	

Sole-proprietorships in New York constitutes over 72 percent of all businesses. The total number of sole-proprietorships has increased an average of 3.36 percent each year since 1997; that's about 45,000 new businesses opened per year. Growth in sole-proprietorships has remained steady, and actually increased, during the 2001-2002 recession. In 2002 alone, New York Sole Proprietorships reported 58.7 billion dollars in receipts. This portion of the workforce is much too large and important to the New York State economy to be ignored.

Percentage Change in Employment by Business Size*



Policy Recommendations:

Inititate a $20 Million Statewide Microenteprise Technical Assistance and Lending Development Fund
MicroBizNY recommends that the state develop a new funding mechanism to support microenterprise training, TA and lending. This fund could be operated through Empire State Development Corporation (ESDC) and should be made available to all microenterprise development organizations through a statewide RFP. Regionally based training focused and lending focused organizations should work together to develop collaborative partnerships to meet the needs of local entrepreneurs. This program should replace the Entrepreneurial Assistance Program as the primary funding source for microenterprise development organizations in NYS. The EAP program, while extremely effective, has been underfunded since its inception and has severely limited the number of organizations that have access to the funding. Based on past research on the efficacy of EAP and other microenterprise development programs NYS should invest a minimum of $20 million in SFY 07-08 to ensure adequate funding for these needed

services. Conservative estimates based on prior ESDC research would indicate that the state would see $40 million in tax revenue generated by the new businesses created with this program.

TANF/WIA Funds to support Low-Income Microenterprise Development

MicroBizNY would urge County Governments to include provisions for microenterprise development in their county bi-ennial employment plans. We believe that all counties (under the FFFS Block Grant) should include financial support for microenteprise development as the federal government has deemed it an eligible use of TANF Funds. We further believe that local Workforce Investment Boards should also provide funding for microenterprise training services. National research indicates that low-income people can and do open and operate successful small business ventures and approximately half of the clients served by EAP would be eligible to receive services under the TANF eligibility guidelines. These funds could also be used to develop child-care businesses that would help meet both the need for affordable child-care in our state and provide low-income women the opportunity to develop profitable businesses.

Improving the Performance of Microenterprise Development Organizations

MicroBizNY recommends that the state implement a program to enhance the performance of small business and microenterprise development programs. A coordinated program of capacity-building, technical assistance and performance evaluation for microenterprise/small business development organizations offers the potential to enhance the impact of microenterprise development services across New York State. Microenterprise programs benefit NYS through new business creation, business expansion and job creation. Capacity-building and technical assistance will guarantee performance and the achievement of these objectives. This is an important time to invest in quality microbusiness development services, to strengthen existing service providers, and to maximize the return of NY's investment in entrepreneurial training and technical assistance services throughout the state.

Individual Development Accounts (IDAs)

Many Americans work hard to get an education, purchase a home, or start a business. But they usually have help along the way from family, professional networks, and the myriad other opportunities that come with economic advantage. Even the federal government subsidizes asset accumulation for the non-poor via mortgage interest deductions, preferential capital gains, and pension fund exclusions. For the significant number of Americans who lack the resources to take advantage of those opportunities, basic goals like education, home ownership, and meaningful employment remain an elusive dream.

IDAs are dedicated savings accounts similar in structure to IRAs. Generally, the account holder chooses to save toward one of three goals: purchasing a first home, continuing education or job training, or starting or expanding a small business. Community development organizations use funds from public and private sources to match the account holder's deposits. Within a few years, the account holder can accumulate sufficient assets to invest in the chosen goal. In addition to matching funds, account holders receive credit counseling, help with budgeting, and economic literacy training.

IDA programs have varying levels of eligibility requirements. Some include households living at less than or equal to 150 percent or 200 percent of the federal poverty level, while others require that the account holder's household income not exceed 80 percent of the area median income. Organizations also determine eligibility for IDA programs using household net worth. IDAs are designed to help individuals and families who have both low income and low assets. Funds from government appropriations and private sources match the account holder's deposits at a rate ranging from 1:2 to 9:1. Programs place limits on the amount that will be matched each year.

Asset-building strategies represent an increased emphasis on developing self-sufficiency. Some IDA holders rely on public assistance. Traditional public assistance program address only income maintenance and consumption. Such programs do not support the transition to self-sufficiency, and strict asset limits for recipients of public assistance create a barrier to savings. Asset-building programs complement income maintenance programs by providing a realistic vehicle through which individuals and families can improve their economic well- being. Many of the IDA holders who participate in income maintenance programs will be able to move off public assistance.

New York State currently allows individuals to open IDA accounts, but the State does not provide funding. Although New York legislators voted to disregard funds in TANF recipients' IDA accounts when determining eligibility for public assistance, New York has no comprehensive IDA legislation. New York continues to lag many other states is the support of Individual Development Accounts.

A number of other states have made significant strides in developing IDA programs. Indiana has backed its IDAs with $6.5 million from the state general fund and another $500,000 annually in tax credits to contributors to an IDA program. Anyone who contributes to an Indiana IDA will receive a fifty percent tax credit on contributions between $1,000 and $50,000. The match rate is 6:1 total, composed of 3:1 by the state and 3:1 required of administering organizations. In Pennsylvania, the State has appropriated $1.25 million for a Family Savings Account program. North Carolina has appropriated $300,000 a year for the next two years for IDAs, and the State has set aside $250,000 of Community Development Block Grant funds for home ownership IDAs. Iowa has allocated $50,000 to support a five-year demonstration known as the Family Investment Program. Other states give tax benefits to contributors to IDA programs. A total of more than forty community-based organizations and twelve states are running or supporting IDA programs.

At the federal level, Congress has passed the Assets for Independence Act. The Assets for Independence Act set up a national IDA demonstration project, funded over four years with $100 million. In order to access these funds states and local groups must provide a non-federal match.

Childrens Savings Accounts – Sowing the SEEDs of Change

The Harlem Children's Zone has also just launched a new project offering SEED Accounts. Savings for Education, Entrepreneurship and Downpayment (SEED) accounts are similar in structure to IDAs but are focused on helping children build assets. SEED accounts can make a substantial difference in the life a child by helping them accumulate assets for when they become adults. The will have been able to save thousands of dollars for the purpose of purchasing a home, starting a business or getting a college education. These programs will also work with the children to give them the educational tools they need later in life that will help them not only manage money but their future as well.

The Harlem Children's Zone is one of only a few organizations nationally chosen to offer these accounts as part of a demonstration project. The Harlem Children's Zone intentionally develops programs where other agencies are not located and poor children and families have no where else to turn for help. The Harlem Children's Zone is offering SEED accounts to Children in its Harlem GEMS Universal Pre-Kindergarten Program.

Active IDA Programs in New York State

Affordable Housing Partnership, Albany
Alternatives Federal Credit Union, Ithaca
Brooklyn Ecumenical Credit Union, Brooklyn
Challenge Industries, Ithaca
Chautauqua Opportunities Inc., Dunkirk
Genessee Co-Operative Federal Credit Union, Rochester
Homesteaders Federal Credit Union, Manhattan
Lower East Side Peoples Federal Credit Union, Manhattan
Mount Hope Housing Company, Bronx
Neighborhood Housing Services, Brooklyn
Neighbors Helping Neighbors, Brooklyn
New York Association for New Americans, Manhattan
NEXUS Project/NYC Partnership, Manhattan
Northfield Local Development Corporation, Staten Island
PEACE Inc. (Onondaga CAP Agency), Syracuse
SEEDCO/Non-Profit Assistance Corporation, Manhattan
St. John United Federal Credit Union, Buffalo
Westchester Housing Fund, Hawthorne
Westchester Residential Opportunities, White Plains
Wildcat Services Corporation, Manhattan
YWCA of Rochester and Monroe County, Rochester

Note: There are numerous other programs in the developmental stages throughout the state.

Policy Recommendation:

The Governor and the Legislature should allocate $5 million in economic development funds to foster the promotion and creation of IDAs. These funds should be used for a pilot project to provide funding to existing IDA programs and to create new programs.

Community Development Financial Institutions (CDFIs)

CDFIs are diverse organizations that meet a need for credit and financial services in disinvested and low wealth communities. A CDFI is a financial institution with a primary mission of community economic development, providing credit and/or investments in urban, rural, and reservation-based communities inadequately served by banks. There are six basic types of CDFIs: community development credit unions, banks, loan funds, micro-enterprise funds, community development corporation-based lenders and venture funds. CDFIs offer loans and savings opportunities to small and micro-businesses, first-time homebuyers, organizations developing affordable housing or community facilities and individuals seeking to improve their economic options.

A distinguishing feature of a community development financial institution is community control of local investment. Community ownership and control allow these institutions to be more responsive to the needs of their members and therefore effective in their lending and investment strategies. Because of this community control, the commitment to the neighborhoods and consumers they serve will endure.

New York CDFI Facts and Figures

The **106 CDFIs** in New York State have almost **$676 million in financing** outstanding. New York CDFIs serve predominantly low-income individuals (77.1%), minorities (70.5%) and women (59%). In just one year, CDFIs in New York:

Provided asset-building savings and financial services to more than 64,000 people.
Closed more than 8700 loans and investments
Financed 887 businesses and microenterprises, creating and supporting 2,673 jobs.
Created or renovated 11,621 affordable housing units

Our research indicates for every $1 of state investment, CDFIs are able to leverage up to $24 in federal and private sector funding. Thus, a dedicated state fund that allows CDFIs to raise state capital will vastly expand the level of lending and financing services that they are able to provide throughout the state. We also believe a dedicated fund will enable new CDFIs to form in areas that lack adequate service and existing CDFIs to expand their activities to reach more communities.

Policy Recommendations:

NYS should support its recently passed independent New York State CDFI Fund to make investments in CDFIs for a broader range of financing and financial services purposes. We urge the Legislature to support a **$20 million appropriation** and an expansion of eligible financing activities. We further believe that the fund should be increased to allow for larger grant amounts (going from the current maximum of $50,000 to $100,000) that would help leverage additional federal capital and increase the return on the application process).

The New York Legislature worked with the CDFI Coalition to establish the New York CDFI program housed at Empire State Development Corporation in 1997. This program has funded in excess of $8 million to 35 CDFIs statewide (through 2004) for business lending. Funding under this program has enabled CDFIs to significantly increase lending to minority and women-owned businesses by community development credit unions, loan funds, and banks.

Thanks you for the opportunity to testify here today. If you have any questions I would be happy to try and answer them.