Office of the New York State Comptroller

Division of Local Government & School Accountability

Saratoga County Industrial Development Agency

Project Monitoring and Grant and Loan Program

Report of Examination

Period Covered:

January 1, 2014 – January 31, 2015

2015M-85

Thomas P. DiNapoli

Table of Contents

		Page
AUTHORITY LETTER		1
EXECUTIVE SUMMARY		2
INTRODUCTION		4
	Background	4
	Objective	4
	Scope and Methodology	5
	Comments of Agency Officials and Corrective Action	5
PROJECT MONITORING		6
	Job Creation	6
	Project Monitoring	8
	Recommendations	9
GRANT AND LOAN PROGRAM		11
	Recommendation	13
APPENDIX A	Response From Agency Officials	14
APPENDIX B	Audit Methodology and Standards	17
APPENDIX C	How to Obtain Additional Copies of the Report	18
APPENDIX D	Local Regional Office Listing	19

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

October 2015

Dear Agency Officials:

A top priority of the Office of the State Comptroller is to help local officials manage government resources efficiently and effectively and, by so doing, provide accountability for public dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments and certain other public entities 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 government assets.

Following is a report of our audit of the Saratoga County Industrial Development Agency, entitled Project Monitoring and Grant and Loan Program. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for agency 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

An industrial development agency (IDA) is an independent public benefit corporation whose purpose is to promote, develop, encourage and assist in acquiring, constructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial, research and recreation facilities. The overall goal of an IDA is to advance the job opportunities, health, general prosperity and economic welfare for the people of the State. The Saratoga County Industrial Development Agency (SCIDA) was established in 1971 to further economic development in Saratoga County.

SCIDA is governed by a Board which comprises seven members appointed by the Saratoga County Legislature. SCIDA contracts with an individual who serves as the executive officer[1] and it contracts with Saratoga County for the services of the County's planning department staff. SCIDA generally assumes the title of the real and/or personal property owned by the businesses that are involved in approved projects, thereby allowing SCIDA to offer financial assistance such as real property tax exemptions. SCIDA enters into general payment in lieu of taxes (PILOT) agreements in connection with approved projects. SCIDA funds its operations with fees charged for processing applications, State grants and other miscellaneous income.

Scope and Objective

The objective of our audit was to review SCIDA's process for evaluating and monitoring projects and to review its grant and loan program for the period January 1, 2014 through January 31, 2015. We extended our scope for the grant and loan program back to January 1, 2001. Our audit addressed the following related questions:

- Did SCIDA monitor and evaluate the performance of firms or businesses that were granted IDA financial assistance within the SCIDA PILOT program?
- Does SCIDA have the authority to administer its grant and loan program?

Audit Results

SCIDA generally monitored and evaluated the performance of firms or businesses for which benefits and incentives were granted. We reviewed 10 projects and found that four did not meet their job creation goals. Although SCIDA had provisions to reduce assistance for the businesses that did not

1 The propriety of the IDA's contract for services of a "chief executive officer" and of the County's contribution to the IDA are not within the scope of this audit.

meet their goals, SCIDA did not reduce the assistance for the four associated businesses because the Board did not review the performance of the businesses to determine whether or not to reduce assistance. Additionally, each of the 10 projects had a PILOT agreement that required SCIDA to bill the associated businesses and collect and remit payments to the affected taxing jurisdictions. However, SCIDA did not bill one project for 2014; based on our reading of the PILOT agreement, the affected taxing jurisdictions may have been underpaid by $108,000.

In March 2015, as a result of our audit and various legal opinions, the Board suspended its grant and loan program. SCIDA had issued 11 grants totaling $964,000 and made three loans totaling $1.2 million with its own money to local governments and private entities. Principal amounts totaling $350,000 had been repaid and two of the three loans had outstanding balances totaling $850,000. General Municipal Law contains no authority for IDAs to provide grants or make loans to local governments or private entities using their own money.

Comments of Agency Officials

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

Introduction

Background

An industrial development agency (IDA) is an independent public benefit corporation whose purpose is to promote, develop, encourage and assist in acquiring, constructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial, research and recreation facilities. The overall goal of an IDA is to advance the job opportunities, health, general prosperity and economic welfare for the people of the State. The Saratoga County Industrial Development Agency (SCIDA) was established in 1971 to further economic development in Saratoga County. The goals of SCIDA are to promote, develop, encourage and assist in the construction, expansion and equipping of economically sound industrial and commercial facilities in order to advance the job opportunities, general prosperity and economic welfare of the citizens of Saratoga County.[2]

SCIDA is governed by a Board which is composed of seven members appointed by the Saratoga County Legislature. The Board has the authority to approve all projects. SCIDA contracts with an individual who serves as the executive officer and it contracts with Saratoga County for the services of the County's planning department staff. SCIDA generally assumes the title of the real and/or personal property owned by the businesses that are involved in approved projects, thereby allowing SCIDA to offer financial assistance to these businesses, such as real property tax exemptions. SCIDA is not required to pay taxes or assessments on any property acquired by it or under its jurisdiction, control or supervision. It enters into general payment in lieu of taxes (PILOT) agreements in connection with approved projects, governed by SCIDA's Uniform Tax Exemption Policy (UTEP). SCIDA funds its operations with fees charged for processing applications, State grants and other miscellaneous income.

Objective

The objective of our audit was to review SCIDA's process for evaluating and monitoring projects and to review its grant and loan program. Our audit addressed the following related questions:

- Did SCIDA monitor and evaluate the performance of firms or businesses that were granted IDA financial assistance within the SCIDA PILOT program?

- Does SCIDA have the authority to administer its grant and loan program?

[2] According to its mission statement

Scope and Methodology

We examined SCIDA's project monitoring and grant and loan program for the period January 1, 2014 through January 31, 2015. We extended our scope for the grant and loan program back to January 1, 2001.

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 Agency Officials and Corrective Action

The results of our audit and recommendations have been discussed with Agency officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials generally agreed with our recommendations 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 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.

Project Monitoring

General Municipal Law (GML) requires each IDA to establish a UTEP which provides the Board with guidelines to make project approval or denial decisions and establishes standards for PILOT agreements. The Board is responsible for monitoring and evaluating the performance of businesses and determining whether project goals have been met, such as creating or retaining jobs. To meet this responsibility, the Board should establish a process to obtain annual performance information, such as employment levels, from businesses, verify the accuracy of that information and review the information to determine whether projects goals were met. The IDA can include provisions in PILOT or other project agreements to allow it to recapture or recover financial assistance if project goals are not met. Additionally, to ensure that PILOT payments are properly made, the IDA should have a process to monitor PILOT payments and verify that they are made timely and accurately.

SCIDA officials monitored job creation and retention performance by requiring businesses receiving SCIDA financial assistance to submit annual employment data to SCIDA.[3] SCIDA also conducted periodic visits to businesses to verify the number of jobs created or retained. SCIDA's UTEP contains provisions to allow SCIDA to reduce future financial assistance received by businesses when they do not meet project goals (provisions for reduced assistance). Additionally, in October 2014, SCIDA added a recapture provision to its UTEP to provide for recovery of previously granted assistance when businesses fail to meet employment goals. Our review of 10 projects disclosed that the PILOT agreements for nine projects contained provisions for reduced assistance and none of the PILOT agreements contained recapture provisions because the projects were approved prior to the addition of the recapture provision to SCIDA's UTEP. In addition, four projects did not meet their job creation goals, the remaining six projects exceeded their goals. While SCIDA monitors PILOTs, we identified one business that SCIDA did not bill as apparently stipulated in the PILOT agreement. Based on our reading of the PILOT agreement, the affected taxing jurisdictions may have been underpaid by approximately $108,000 for PILOTs in 2014.

Job Creation

The IDA is responsible for establishing a process to monitor and, when appropriate, enforce agreed-upon job expectations. Additionally, provisions may be included in PILOT or other project agreements that allow IDAs to recapture or recover financial assistance if companies

[3] SCIDA requires businesses receiving SCIDA financial assistance to sign annual reporting agreements.

do not meet their project goals. Penalties for nonperformance, such as a shortfall in job creation or other promised benefits, could include termination of real property tax exemptions, transfer of title from the IDA back to the company or such other penalties as may be determined by the IDA consistent with the agreement, including the clawback or repayment of all or part of the amount of any tax exemption. When an IDA includes these provisions in PILOT or other project agreements, it should also have a process to periodically evaluate businesses' performance and determine whether or not such provisions should be exercised.

SCIDA's UTEP includes detailed provisions for various types of PILOT agreements that may be entered into with businesses.[4] Businesses seeking benefits from SCIDA are required to submit an application which is reviewed by the Board using project benefit criteria outlined in SCIDA's UTEP, including the number of jobs to be created and/or retained, the capital investment associated with the project and the project's impact on the local economy. The Board uses this information to decide whether to approve a project and to determine the "percentage" and length of exemptions to be provided for approved projects. The UTEP also includes provisions (which are included in SCIDA PILOT agreements) to increase the amount of future PILOTs when a business sells or closes a facility, changes the use of the facility or its business activities or significantly reduces its employment levels. In October 2014, SCIDA modified its UTEP to add provisions that allow SCIDA to make provisions in project contracts for the recapture of financial assistance received in prior years when a business does not meet its employment goals.

We examined the PILOT agreements for 10 projects and found that nine included provisions for reduced assistance, but one PILOT agreement did not because the PILOT agreement contained provisions for the business to pay a PILOT amount equal to 100 percent of what would otherwise be the business's tax liability. None of the agreements contained recapture provisions, because those agreements were in place before SCIDA modified its UTEP to include the recapture provision.[5]

SCIDA monitors job creation performance by requiring businesses that receive SCIDA benefits to sign an annual reporting agreement. Annually, businesses receiving SCIDA financial assistance report

[4] SCIDA's UTEP contains provisions for the following types of projects: manufacturing, commercial services, commercial retail, hydroelectric facilities, cogeneration facilities and nanotechnology facilities.

[5] The recapture provision was added to the UTEP on October 14, 2014. Each of the 10 projects reviewed were approved prior to this date.

employment figures to SCIDA which are used to monitor project performance. Additionally, a SCIDA official performs periodic field audits to verify the job creation numbers reported.[6] We examined the annual reporting forms for 10 projects receiving assistance in 2014 and found six met or exceeded their job creation goals and the remaining four did not.

Figure 1: Job Creation Performance

Project	Jobs Before SCIDA Involvement	Jobs Created or (Decreased) During SCIDA Involvement	Total Jobs Reported as of December 31, 2014	Total Job Creation/ Retention Goal by December 31, 2014	Excess or (Shortage) of Jobs vs. Job Creation Goal
1	0	20	20	16	4
2	48	51	99	80	19
3	88	89	177	141	36
4	0	2,544	2,544	2,075	469
5	31	205	236	130	106
6	40	(12)	28	57	(29)
7	75	255	330	124	206
8	42	(3)	39	52	(13)
9	3	22	25	44	(19)
10	21	3	24	34	(10)
Total	348	3,174	3,522	2,753	769

The six projects that exceeded their job creation goals created 840 more jobs than estimated on their applications while the four projects that did not meet their job creation goals created 71 fewer jobs than estimated on their applications resulting in a net gain of 769 jobs. As of December 31, 2014, two projects reported 15 fewer jobs than before the business received IDA assistance.

While the PILOT agreements for the four projects that did not meet their goals contained provisions for reduced assistance, SCIDA did not implement these provisions. The Board did not review the performance of the four businesses that did not meet their job creation goals to determine whether or not to exercise the provisions for reduced assistance. As a result, the businesses' assistance was not reduced. This occurred because SCIDA does not have a process for the Board to review projects which fall short of their job creation goals and determine whether or not to exercise the financial assistance reduction and/or recapture provisions.

Project Monitoring

Real property owned by or under the jurisdiction, control or supervision of an IDA is entitled to an exemption from real property taxes. These exemptions may be passed through to assisted businesses. In most cases, a portion of the property taxes forgone is offset via PILOTs made

[6] Three to four projects are selected for field audit on an annual basis.

by recipients of IDA financial assistance, for the benefit of affected taxing jurisdictions (i.e., local governments and school districts) in accordance with the applicable PILOT agreements. SCIDA PILOT agreements make SCIDA responsible for billing, collecting and remitting all PILOT payments to the affected taxing jurisdictions.

We reviewed PILOT payments for the same 10 projects and found nine of the 10 projects were billed accurately in accordance with their PILOT agreements, and their PILOT payments were collected and remitted to the affected taxing jurisdictions accurately and in a timely manner. For the one remaining PILOT project, SCIDA did not bill the business for 2014, notwithstanding language in the PILOT agreement that appears to require the payment of PILOTs. This PILOT agreement is for a facility owned by a property management company and is leased to various other businesses occupying the facility. The PILOT agreement states that the IDA annually must make a determination as to whether the facility qualifies for a “manufacturing tax abatement.” As described in the agreement, pursuant to this “abatement,” the business is not required to make a PILOT if more than 50 percent of the “net leasable space” within the facility is utilized for manufacturing, as determined by SCIDA, and all remaining “net leasable space” is occupied by a “qualifying tenant.”[7] The agreement further provides that if more than 50 percent of the “net leasable space” is utilized for manufacturing but any portion of the remaining “net leasable space” is not occupied by a “qualifying tenant,” then PILOTs for the unoccupied portion will be paid, as calculated in accordance with the agreement.

While it appears the project fulfilled the leasing requirement, the remaining space was not leased. Based on our reading of the agreement, under these circumstances, the business would be required to make prorated PILOT payments based on the portion of the space not leased by a qualified tenant. SCIDA did not bill the project for the remaining space not leased by a qualifying tenant, which we believe resulted in the underpayment to the affected taxing jurisdictions of approximately $108,000. According to SCIDA officials, they did not bill the business because they were unaware of this PILOT agreement provision and believed the tenant would only be required to make PILOT payments if less than 50 percent of the facility was utilized for manufacturing.

Recommendations

The Board should:

1. Implement a process to review projects that fall short of their job creation goals on a periodic basis and determine whether or not to exercise the financial assistance reduction and/or recapture provisions.

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[7] The PILOT agreement defines what constitutes qualifying tenants.

2. Consult with SCIDA's counsel as to whether the provisions of the PILOT agreement for the facility owned by the property management company requires prorated PILOT payments and, if so, whether any unbilled and unpaid PILOTs should be recovered.

Grant and Loan Program

It is a general rule that public benefit corporations, such as IDAs, have only those powers which are conferred expressly by the New York State Legislature or which are necessarily implied. An IDA is authorized to provide "financial assistance" for IDA projects. The term "financial assistance" is defined to mean the proceeds of IDA bonds, "straight-leases" or exemptions from taxes resulting from a project's status as an IDA project.

Financial assistance does not expressly encompass direct grants or loans of the IDA's money. Moreover, while an IDA is expressly permitted to accept gifts, grants, loans and contributions from various sources and to use such money for its corporate purposes, GML contains no corresponding authority for IDAs to provide grants or make loans using their own money to local governments or private entities.[8] Accordingly, we question whether SCIDA is authorized to make grants or direct loans of its own money. In March 2015, as a result of our audit, the legal opinions of OSC and the Attorney General, and the Authorities Budget Office Policy Guidance, the Board suspended its grant and loan program.

In February 2010, the Board established a grant and loan program whereby SCIDA would provide grants and/or loans of its own money to entities that demonstrated that the grant or loan would support the purpose for which the IDA was created and would directly assist in the creation and/or retention of jobs or the ability to create and/or retain jobs in the future. SCIDA allocated $1.5 million or 50 percent of its unrestricted fund balance to provide grants and loans. In June 2014, the Board increased the amount of unrestricted fund balance for the grant and loan program to $3 million. SCIDA required an application to be submitted specifying the requested grant and/or loan amount, planned use of the moneys and how the grant and/or loan would assist in economic development. According to SCIDA officials, SCIDA entered into agreements with grant and loan recipients that specified the purposes of the grants or loans and the allowable uses of the moneys. Additionally, loan agreements specified the terms of the loans including interest and maturity and the manner in which the loans were to be secured. Prior to March 2015, SCIDA issued 11 grants totaling approximately $964,000 and three loans totaling $1,200,000.

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8 Office of the State Comptroller (OSC) Opinion Nos. 99-4, 82-360; Attorney General Formal Opinion No. 2014-F1; Authorities Budget Office Policy Guidance No. 15-01; see also OSC Opinion No. 2011-1, cited in Attorney General Formal Opinion No. 2014-F1, concerning the authority for an IDA to do things "necessary or convenient" to carry out its purposes and exercise its powers under the GML.

Grant Program — SCIDA made 11 grants totaling approximately $964,000 dating back to 2010. We reviewed the 11 grants and associated agreements and found eight grants totaling $855,600 had agreements that specified the purposes of the grants and allowable uses of the funds. For the remaining three grants, totaling $108,400, the Board passed resolutions to approve the grants but did not enter into agreements with the grantees to specify the appropriate uses of the funds.

Figure 2: SCIDA Grants

	Grantee	Grant Purpose	Amount
1	Saratoga Economic Development Corporation	Marketing study	$200,000
2	Town of Ballston	Connection to Saratoga County Water Authority	$68,400
3	City of Saratoga Springs	Inventory of Historic Saratoga Racecourse assets	$10,000
4	Town of Northumberland	Engineering and design study for the rehabilitation of Dix Bridge	$26,800
5	Burnt Hills-Ballston Lake Central School District	High technology career exploration program	$30,000
6	Saratoga County	Economic development plan for Luther Forest Technology Campus	$50,000
7	City of Saratoga Springs	Construct parking deck in business district	$250,000
8	Town of Malta	Construct sewer extension on Route 67	$185,000
9	Town of Milton	Electrical upgrade for Saratoga County Fairgrounds	$85,000
10	City of Saratoga Springs and Engineering Firm	Engineering and design of traffic improvements for the intersection at Geyser Road and Route 50	$41,800
11	Saratoga County	Luther Forest Technology Campus regional traffic impact study	$17,000
		Total	**$964,000**

We question SCIDA's authority to provide these grants. Furthermore, even if the grants were authorized, because SCIDA did not enter into grant agreements with all grantees, SCIDA lacks assurance that the grantees will use the funds for the intended purposes.

Loan Program — SCIDA made three loans totaling $1.2 million dating back to 2001. Of this amount, $650,000 was loaned prior to the Board establishing the grant and loan program. However, the loans were approved by the Board. We verified loan payments and found one loan has been repaid in full including interest, but the remaining two loans have outstanding balances net of payments totaling $850,000 plus interest.

- SCIDA loaned $300,000 to the Town of Corinth in 2009 for the reconstruction of a rail spur located in the Town. The Town of

Corinth made principal and interest payments in accordance with the loan agreement and repaid the loan in full in 2011.[9]

- SCIDA loaned $250,000 to two individuals in 2011 for engineering and infrastructure improvements to a parcel with the goal of making the land marketable to a manufacturing company. As of February 2014, payments were made in accordance with the contract. According to the loan agreement, no principal is due until January 2016. This loan is secured by a mortgage on private real estate owned by the borrowers.

- SCIDA loaned $300,000 to the Saratoga Economic Development Corporation (SEDC) in 2001 for the development of a parcel of land known as the Luther Forest Technology Campus. In 2003 and 2004, SCIDA loaned an additional $250,000 and $100,000, respectively, to SEDC for the same purpose. In 2006, the three loans were consolidated into one loan for $650,000. Since the loans were originally approved, SCIDA has modified the terms of the loan agreement several times to allow SEDC additional time to make principal payments and to transfer the loan from SEDC to the Luther Forest Technology Campus Economic Development Corporation (LFTCEDC). According to SCIDA officials, they extended the loan term because the LFTCEDC experienced financial difficulties and requested additional time. In accordance with the most recent modification to the loan agreement dated July 2013, LFTCEDC made its first principal payment, totaling $50,000, leaving an outstanding balance of $600,000.

In July 2013, SCIDA approved a $1 million loan and a $525,000 grant to the Saratoga County Water Authority for water plant improvements. In February 2014, SCIDA approved an additional $40,000 grant to the City of Saratoga Springs for traffic improvements.

Recommendation

3. SCIDA should discontinue its practice of providing grants and loans of SCIDA's own moneys.

[9] The authority for the Town to enter into such a "loan" arrangement with SCIDA is not within the scope of this audit.

APPENDIX A

RESPONSE FROM AGENCY OFFICIALS

The Agency officials' response to this audit can be found on the following pages.

SARATOGA COUNTY
INDUSTRIAL DEVELOPMENT AGENCY

RAYMOND F. CALLANAN
CHAIRMAN

September 25, 2015

To: [redacted] Office of the State Comptroller
[redacted] Office of the State Comptroller

From: Richard J. Ferguson, CEO
Saratoga County Industrial Development Agency

Re: Agency's response to the State of New York Office of the State Comptroller; Audit of Saratoga County IDA Project Monitoring & Grant and Loan Program Report of Examination Period Covered: January 1, 2014 – January 31, 2015

Dear [redacted]:

I appreciated the opportunity to meet with both of you at our meeting of September 1, 2015. Please accept the following as the Saratoga County Industrial Development Agency's official response to the above referenced audit. As required, our Agency Corrective Action Plan will be presented under a second document and will be provided to you and your office within the 90-day time limit provided.

- Recommendation: Implement a process to review projects that fall short of their job creation goals on a periodic basis and determine whether or not to exercise the financial assistance reduction and / or recapture provisions.

Job creation goals are one of several public benefits the County of Saratoga Industrial Development Agency considers in its review of projects. They are directly related to our consideration of whether incentives will be granted, as well as the type and term of incentive program which may be provided. Other important measurement criteria include jobs retained, salaries and payroll, and the capital investment made by a company.

The Agency recognizes that an individual company's job growth can be adversely impacted by many factors including downturns in the local and / or national economies, domestic and foreign competition, normal business cycles and the failure to implement an intended business plan. These conditions are outlined in part in the Agency's Modification of Real Property Tax Abatement Policy (see UTEP, Attachment A: Claw Back Penalty for Failure to Meet Employment Levels). In and of itself, failure to fulfill job goals then does not necessarily justify a reduction in tax abatements. In the same regard, not meeting job projections caused by outside adverse impacts may not automatically require that previously abated taxes be repaid.

The SCIDA accepts the Comptroller's recommendation and will implement a process guided by written procedure that any failure to meet stated job goals will be investigated by administrative staff with the

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results reported in writing to the Board, which will then determine if a company's PILOT Agreement should be modified and if the Agency's claw back provisions should be applied.

- Recommendation: Consult with SCIDA's counsel as to whether the provisions of the United Step 1 PILOT Agreement for the facility owned by the property management company requires prorated PILOT payments, and if so, whether any unbilled and unpaid PILOTs should be recovered.

The SCIDA accepts the Comptroller's recommendation and will consult with both Agency and Bond counsel regarding the above. Any recommended action, procedure or change to the PILOT Agreement will be reported to the Office of the State Comptroller. It is envisioned that as part of this process the Board may be asked to reaffirm their original intent not to tax vacant, unfinished space as long as the subject project met the greater than 50% occupancy level by manufacturing firms.

- Recommendation: SCIDA should discontinue its practice of providing grants and loans of SCIDA's own monies.

The SCIDA suspended its grant/loan program in March, 2015 as indicated in the report and will continue to comply with the position outlined in the State Attorney General's Opinion of September 2014 (No. 2014-F1) and the NYS ABO's Policy Guideline (No.-15-01) issued January 13, 2015.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review SCIDA's process for evaluating and monitoring projects sponsored by SCIDA that were active for the year ending December 31, 2014 and to review its grant and loan program for the period January 1, 2014 through January 31, 2015. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We reviewed the minutes of the Board's proceedings and interviewed SCIDA officials to gain an understanding of SCIDA's processes surrounding project approval and monitoring.
- We reviewed the policies and procedures related to the project application process and for project approval, monitoring and evaluation.
- We reviewed SCIDA's annual report and we interviewed officials to identify SCIDA-sponsored projects since the start of our audit period.
- We reviewed PILOT agreements and inquired of SCIDA officials as to whether they had considered recapturing benefits from business owners who fell short of their performance goals.
- We selected a judgmental sample of 10 projects based on the project approval dates, exemption amounts and estimated project amounts. We obtained all information for these projects, including projects files, PILOT agreements and lease agreements.
- For the same sample of 10 projects, we reviewed project documents to identify job creation goals and reviewed annual reports from participating businesses to determine whether they met those goals. We also obtained and reviewed PILOT payment data from taxing jurisdictions to verify whether PILOT payments were made accurately.
- We interviewed SCIDA officials and reviewed SCIDA documents to gain an understanding of SCIDA's grant and loan program.
- We identified the total number and dollar amount of SCIDA grants and loans by reviewing SCIDA accounting records, bank statements and check images. We reviewed all grant and loan agreements to determine whether they specified the purposes of the grants or loans, the allowable uses of the funds and, for loans, whether they contained repayment terms.
- We reviewed loan activity to determine whether loans were repaid in accordance with the loan agreements and to quantify the amounts paid and outstanding on each loan.
- We assessed whether SCIDA has the authority to issue grants and make loans from our review of pertinent statutes, Opinions of the State Comptroller, a recent Opinion of the Attorney General and recent policy guidance from the Authorities Budget Office.

We conducted this performance audit in accordance with 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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Andrew A. SanFilippo, Executive Deputy Comptroller
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