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November 2024

Marshall Weir, Chief Executive Officer
Jefferson County Industrial Development Agency
800 Starbuck Avenue, Suite 800
Watertown, NY 13601

Report Number: 2020M-70-F

Dear Mr. Weir and Members of the Board of Directors:

One of the Office of the State Comptroller's (OSC's) primary objectives is to identify areas where industrial development agency officials can improve their operations and provide guidance and services that will assist them in making those improvements. OSC also works to develop and promote short-term and long-term strategies to enable and encourage agency officials to reduce costs, improve service delivery and to account for and protect their agency's assets. In accordance with these objectives, we conducted an audit of the Jefferson County Industrial Development Agency (JCIDA) to assess whether the Board of Directors (Board) ensured adequate procedures were in place to appropriately evaluate projects prior to approval and subsequently monitored the performance of businesses that received financial benefits. As a result of our audit, we issued a report, dated October 2, 2020, identifying certain conditions and opportunities for Agency management's review and consideration.

To further our policy of providing assistance to local governments, we revisited JCIDA in July 2024 to review the progress in implementing our recommendations. Our follow-up review was limited to interviews with JCIDA officials and personnel and inspection of certain documents related to the issues identified in our report. As part of our review, we selected seven of 24 projects (29 percent) that were approved after the issuance of our original report. We also reviewed JCIDA's corrective action plan (CAP), which was included as an Appendix in the audit report. Based on our limited procedures, the JCIDA has demonstrated minimal progress implementing corrective action. Of the five audit recommendations, one recommendation was fully implemented, two recommendations were partially implemented and two recommendations were not implemented.

Recommendation 1 – Project Application

The Board should develop procedures to ensure that capital investment and current employment information provided on project applications is supported by adequate documentation.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not develop procedures to ensure that capital investment and current employment information provided on project applications was supported by adequate documentation. The JCIDA's CAP indicated that documentation of employment numbers (e.g., NYS-45's¹ or internal payroll reports) would be requested as part of the application to confirm the number of existing jobs reported. The CAP also stated documentation, such as contractor estimates, would be required as part of the application for assistance to confirm capital investment.

We reviewed the application files for seven projects that indicated the applicants would make capital investments totaling \$47.2 million on the projects. No supporting documentation, such as construction budgets or contractor estimates, was submitted by three of the applicants, whose combined capital investments totaled \$31.1 million, to verify the reasonableness of these investment goals. Two of the applicants provided sufficient supporting documentation and two applicants only provided partial documentation for their planned capital investments.

In addition, five applicants reported that they had a total of 124 current full-time and four part-time employees at the proposed project locations which included employees that would be relocated to the project locations. However, none of these applicants provided supporting documentation to allow JCIDA staff to verify these reported employment figures.

The Chief Executive Officer (CEO) and Chief Fiscal Officer (CFO) were unable to provide reasonable explanations why the corrective action indicated in the JCIDA's CAP was not followed. When material application information related to investment or current employment information is not verified, there is a risk that information is inaccurate and that applicants may obtain exemptions they are not entitled to receive. Furthermore, when existing job information reflected in the project application is not verified, the baseline information necessary to measure future job creation and retention could be incorrect.

Recommendation 2 – Cost Benefit Analysis (CBA)

The Board should ensure CBAs adequately compare project costs to benefits and are completed before projects are approved.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board did not ensure CBAs adequately compared project costs to benefits and that CBAs are completed before projects are approved. The JCIDA's CAP acknowledged that the JCIDA should more clearly document the basis for project approval to demonstrate its consideration for qualitative impacts, both pro and con, that are not included in their existing quantitative analysis. The CAP indicated this would be done by adding a sheet of paper to the project file summarizing both the quantitative and qualitative factors considered in that approval.

¹ The New York State (NYS)-45 is the Quarterly Combined Withholding, Wage Reporting and Unemployment Insurance Return filed by employers with the NYS Department of Taxation and Finance and the NYS Department of Labor.

A CBA was not completed for one of the seven projects reviewed. This applicant requested assistance in the form of a \$22,000 sales tax abatement. The CFO told us a CBA was not completed for this project because the company was only asking for a sales tax abatement and CBAs were not completed for projects that only request this type of assistance. However, by not having a CBA for this project, JCIDA officials cannot demonstrate that the sales tax abatement provided was in the taxpayers' best interest.

Additionally, the six project files that had completed CBAs did not include any documentation showing officials considered the possible negative impact of the proposed project on local businesses or calculated any associated indirect community costs. The CFO told us that the JCIDA only evaluates the positive benefits of a proposed project. However, by considering each project's indirect costs along with the benefits, the Board would have a more accurate picture of the financial impact on the community when it is evaluating whether to approve the projects.

Recommendation 3 – Project Agreements

The Board should ensure project goals, along with recapture provisions, are incorporated into project agreements.

Status of Corrective Action: Fully Implemented

Observations/Findings: Project agreements for the seven projects reviewed included project goals (i.e., capital investment and job creation/retention) and recapture provisions.

Recommendation 4 – Application and Administrative Fees

The Board should adopt policies and procedures to ensure application and administration fees are properly calculated and billed in accordance with JCIDA's fee schedule.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board did not adopt written policies and procedures to ensure application and administration fees were properly calculated and billed in accordance with JCIDA's fee schedule. The JCIDA's CAP stated that a worksheet used to calculate project fees will be included in the project file and will be made part of the project review materials presented to the Board. The CAP stated that any approved deviations from the normal fee calculation will be clearly explained on the worksheet.

JCIDA's fee schedule establishes an application fee, and for projects that are approved, an administration fee. An application fee of \$2,500 is due to JCIDA when the project application is submitted. Although the fee is non-refundable, it is credited towards the administrative fee if a project is approved with a payment in lieu of taxes (PILOT) agreement.

We reviewed all application and administrative fees paid by the companies representing the seven projects and found the following:

- Six projects had a calculation worksheet included in the project file. However, only three of these worksheets were presented to the Board for review. The administrative fee charged for one project that had no worksheet on file was incorrect. Based on the fee schedule, the JCIDA should have charged \$5,506; however, only \$2,605 was billed and collected for this project. As a result, the JCIDA did not receive \$2,901 of additional revenue. The CFO told us that a calculation worksheet was not used for this project because the project owner only requested a sales tax abatement. In addition, there was no indication that the Board approved a deviation from the fee schedule. Had JCIDA officials prepared a calculation worksheet for this project and submitted it to the Board, this error may have been identified and corrected.
- One project owner did not pay the required administrative fee totaling \$41,400 to JCIDA. According to the JCIDA fee schedule, the fee was due at closing in June 2023. However, officials did not ensure the project owner made the required payment upon closing. The project owner subsequently received a sales tax abatement (savings), totaling \$162,492, for the project. Officials informed the Board on August 1, 2024 that the fee is overdue. The Board provided the project owner with an extension until December 2024 to make the payment.
- One project owner was not credited with the application fee of \$2,500 at closing. The CFO stated that the application fee is normally credited back prior to the final invoice at closing. However, until our inquiry, he was unaware that the fee was not properly credited back to the project.

When fees are not accurately calculated or collected in accordance with JCIDA’s fee schedules, inequities in the way different projects are charged fees could continue to occur and JCIDA may not receive the funds necessary to help support operations.

Recommendation 5 – Monitoring

The Board should develop procedures to ensure annually reported project performance information is supported by adequate documentation, provided to the Board for evaluation and compared to project goals as stated in applications.

Status of Corrective Action: Not Implemented

Observations/Findings: Annually, the JCIDA sends a questionnaire to all companies with active projects to obtain information related to assistance provided and project performance. However, JCIDA officials did not develop written policies and procedures to ensure annually reported project performance information was supported by adequate documentation.

The Board receives a report annually detailing JCIDA project information, including the job retention and creation goals stated in project applications and the current number of full-time equivalent (FTE) jobs reported by project owners. However, these reports do not include the salary information associated with the FTE jobs reported for each project. In addition, the report

shows the capital investment reported by project owners each fiscal year, but it does not show the cumulative amount of reported capital investment for all the years investments were made. This information is necessary to monitor performance and determine whether capital investment goals are being achieved.

JCIDA's CAP states that staff will ensure that reported job numbers are verified by an accompanying NYS-45 payroll tax form and/or by internal payroll reports. The CAP also stated that site visits to completed projects will be documented to verify completion of the capital investment along with other available documentation that may be available. However, we determined that JCIDA officials did not always take these steps to verify the capital investment and job numbers reported by project owners.

Capital Investment – JCIDA's annual questionnaire requires verification of the capital investment. The verification may consist of a site visit from JCIDA personnel, or the project owner can submit a copy of the contract with the general contractor and/or other documentation that provides cost estimates of the capital investment. We reviewed the annual questionnaires submitted for six projects that were required to submit a questionnaire for the 2021 through 2023 fiscal years and found the following:

- Reported total capital investment of \$19.2 million indicated on the annual questionnaires was not supported and no site visits were conducted to verify the capital amounts reported.
- One company had two separate projects, each with its own separate capital investment goals. However, the company submitted one questionnaire for the 2021 fiscal year showing \$3 million spent for capital investments and it submitted one for the 2023 fiscal year showing \$3.3 million for capital investments. However, the questionnaires did not distinguish the capital investments for the individual projects and JCIDA officials told us that they did not follow up with the company to obtain the capital investment amounts for each project.
- Two companies reported receiving sales tax abatements totaling \$170,200, but they did not report any capital investments. The companies should have made capital investments to receive the sales tax abatements. The CFO told us officials did not notice the reporting discrepancy for one company, so they did not follow up with the company to confirm whether the capital investment occurred. He said they followed up with the other company to request the capital investment information. However, the information was never provided.

Because officials did not implement policies and procedures to verify the accuracy of the capital investments reported by companies and to follow up on discrepancies in the questionnaires, they may not recognize errors or material shortfalls in the actual amount of capital investment made by the projects. In addition, the community may not receive the intended benefits of such investments.

Job Performance – JCIDA’s annual questionnaire requires submission of the NYS-45 to verify reported job information. We reviewed 11 annual questionnaires submitted for the 2021 through 2023 fiscal years and found that the job information such as the current number of FTE jobs and annual salary reported on nine annual questionnaires (82 percent) were not sufficiently supported to allow JCIDA officials to verify the jobs reported and whether job performance goals were met.

Two annual questionnaires did not include supporting documentation to support job performance and in many instances, the supporting information provided with the annual questionnaire did not distinguish between part-time and full-time employees. Therefore, JCIDA officials were unable to confirm the number of actual FTE jobs. JCIDA officials did not request additional information from companies when needed, to verify the job numbers and salaries reported. In addition, the reported annual salary information for each project was not reported to the Board.

Without verifying reported job and salary information, and without comparing this information to both the job and salary goals as stated in the project applications, the Board’s ability to identify job performance shortfalls is diminished, and the community may not receive the intended benefits from retained or newly created jobs.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues with JCIDA officials. We encourage JCIDA officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Rebecca Wilcox, Chief of Municipal Audits of our Syracuse Regional Office at (315) 428-4192.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller