
Authorities Budget Office
Review of Activities and Expenditures
Carthage Industrial Development Corporation
December 16, 2013



Local development corporations (LDCs) are not-for-profit corporations incorporated pursuant to Section 1411 of Not for Profit Corporation Law. The general statutory purpose of an LDC is to reduce unemployment, promote and maintain employment opportunities, aid communities attract new industry or to encourage the development or retention of existing industries, and lessen the burdens of government and act in the public interest. In furtherance of these public purposes, an LDC has the power to construct and rehabilitate industrial or manufacturing facilities to be used by others; provide grants and loans; borrow money; issue debt; and acquire, sell or lease real property below market value. Any county, city, town or village in New York State, alone or in combination, may cause the incorporation of a LDC by public officers or private individuals.

Section 2(2)b of Public Authorities Law defines local authorities to include not for profit corporations affiliated with, sponsored by, or created by a county, city, town or village government. By law, the operations, practices and reports of these LDCs are subject to the review and analysis of the ABO. The ABO is undertaking a series of reviews of selected LDCs across the state to develop a better understanding of the public purposes for which each LDC was formed, and to provide insight into how these corporations function, how each relates to the local government for whose benefit it was created, and the types of activities on which the LDC expends public funds.

These reviews are intended to focus on the following analytical issues:

- The specific mission of the LDC and the purpose(s) for which it was formed.
- The LDC's corporate governance structure, including its relation to the municipal government and other local authorities.
- The sources of LDC funding.
- The programs, services and public objectives supported by LDC funding.
- Activities of the LDC, if any, that may be inconsistent with or tangential to its core mission.

This report reviewed the extent to which the activities and expenditures of the Carthage Industrial Development Corporation (CIDC) are consistent with and advance the public purpose for which it was formed.

Mission of the Carthage Industrial Development Corporation

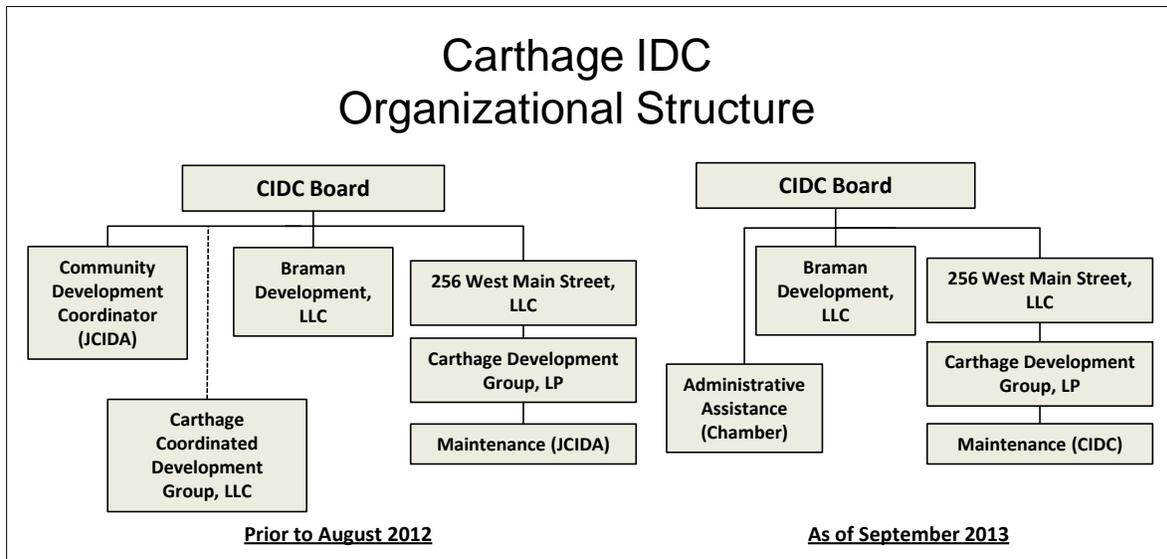
The Carthage Industrial Development Corporation (CIDC) was incorporated in 1998 to take ownership of an abandoned paper mill and hydroelectric facility in the Village of Carthage, Jefferson County, and to lease the plant and redevelop the property for commercial use. The Jefferson County Industrial Development Agency (JCIDA), the Development Authority of the North County (DANC) and the Village Carthage as a local development corporation (LDC) facilitated the formation of the CIDC under Section 1411 of the Not for Profit Corporation Law. CIDC sold a portion of the property, but retained ownership of the hydroelectric facility, which is leased to and operated by a private company. As an LDC, the CIDC has enumerated powers articulated in its Certificate of Incorporation to reduce unemployment, promote and provide for additional employment, and to better and maintain job opportunities in the Towns of Wilna and Champion and the Villages of Carthage and West Carthage. CIDC carries out its mission by using revenues from the hydroelectric facility lease to provide loans and grants for economic development and community projects, and to acquire property for redevelopment.

CIDC Corporate Governance Structure

CIDC is governed by a thirteen member board of directors. According to its bylaws, four of the members are ex-officio: the Village of Carthage Community Development Director, the Executive Director of DANC, the Executive Director of JCIDA, and the Jefferson County Administrator. The Village of Carthage, the Village of West Carthage, the Town of Wilna, the Town of Champion, the Carthage Area Chamber of Commerce, and the Jefferson County Job Development Corporation each appoint one director. The CIDC board appoints the remaining three directors.

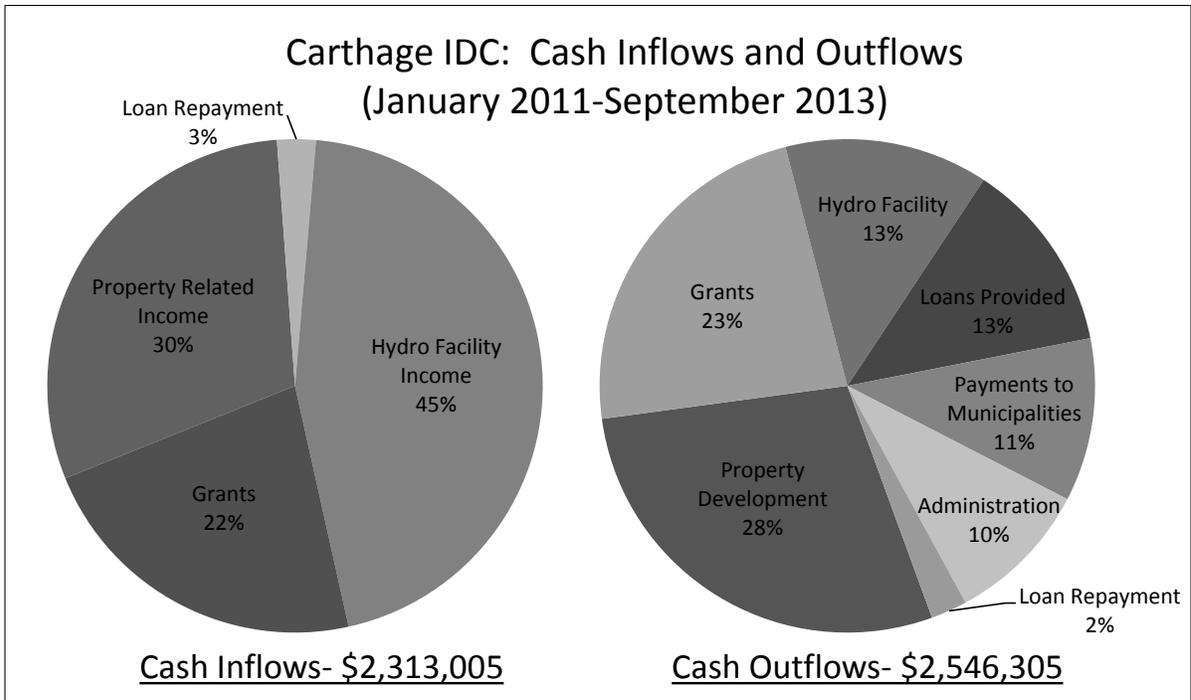
Prior to August 2012, CIDC was staffed by employees of JCIDA. This arrangement called for JCIDA to provide one employee to serve as a Community Development Coordinator for both CIDC and the Economic Development Corporation of Carthage (EDCC), a local development corporation established by the Village of Carthage. JCIDA also provided a part time maintenance position solely to CIDC to maintain CIDC's property. The contract with JCIDA was terminated in July 2012, following a critical report by the Office of the State Comptroller that challenged the legality of this staffing arrangement. Since August 2012 CIDC has contracted with the Carthage Area Chamber of Commerce to provide an administrative person for CIDC. The CIDC's board has assumed direct management responsibility. CIDC has also hired the maintenance employee. From January 2011 through September 2013 staffing related payments totaled \$217,442. Ninety-three percent of these costs applied to the period when services were provided by JCIDA, while only seven percent applied to the year during which services were provided by the Chamber. The change in staffing services reduced annual staffing costs by approximately 86 percent.

The CIDC has also formed limited liability companies and limited partnerships for each of its redevelopment projects in order to reduce its liability, protect its corporate assets, and qualify projects for federal tax credits.



CIDC Finances

From January 2011 through September 2013, CIDC and its affiliated entities received over \$2.3 million, consisting of \$1 million in revenues from the hydroelectric facility; \$515,110 in grant related income; \$689,541 from rental and other property related income; and \$58,097 in loan repayments. Total outlays over this period were more than \$2.5 million. This consists of \$723,626 for property development; \$573,140 for grant related expenses; \$338,681 for capital improvements to the hydroelectric facility; \$336,922 for loans issued; \$272,254 in funds to municipalities; \$241,415 for administrative expenses; and \$60,267 for loan repayments.



CIDC Mission Driven Activities

CIDC leases its hydroelectric facility and receives revenues based on the electricity sold to a utility company. As part of the lease agreement CIDC is responsible for capital improvements, while all other costs are borne by the operator. From January 2011 through September 2013, CIDC took in facility-related revenues of \$1,039,990 and had expenses of \$338,680.

CIDC relies on these lease revenues to fund loans, grants and property acquisitions. CIDC awarded five loans from January 2011 through September 2013 totaling \$336,900. As of December 31, 2012, CIDC had 8 outstanding loans. The original value of these loans was \$2.3 million, and \$2.2 million remained outstanding at the end of December 2012. These loans were made with no requirement that new jobs would be created. Three loans, with a total original value of \$1.8 million, were issued to the Carthage Development Group LLP (CIDC's affiliated entity), for the redevelopment of a building into commercial and residential space. Two of the remaining five loans, totaling \$281,440, were issued to the local hospital for working capital and interim financing; one loan for \$200,000 was issued to a developer for a building rehabilitation; and two loans totaling \$15,479 were issued to projects that also received Main Street grants.

In 2009 CIDC was awarded a state Main Street grant of \$424,075. CIDC awarded these funds to six commercial rehabilitation projects and one to the Village of Carthage for new street lighting. For all but the Village of Carthage project, CIDC required the grant recipients to contribute 25 percent of the total project cost, and it used these funds to pay the contractors for the work done. The Main Street funds

were provided to reimburse CIDC for its incurred costs. On some projects, CIDC would also loan or contribute its own funds to pay for costs that exceeded the recipient contribution and Main Street funds. During 2011 and 2012, CIDC received grant revenues from the State and grant recipients totaling \$513,600 and had project costs totaling \$587,100. This difference is due primarily to CIDC paying for that portion of the Village of Carthage project that was not covered by the Main Street grant.

The CIDC and its affiliated entities have also been involved in the redevelopment of three properties in the Village of Carthage. One project involved the conversion of the upper floors of a property on State Street into 20 affordable housing apartments and the development of four commercial units on the ground floor. To limit its liability for this project, CIDC created a limited partnership known as Carthage Development Group LP (CDG). It also established a limited liability corporation, 256 West Main Street LLC, to serve as the project's managing partner. To qualify the project for federal tax credits, CIDC transferred its ownership in CDG to the purchaser of the tax credits, who needed an ownership stake in the project to realize the full benefits of the tax credits. The total cost of the project was \$6.9 million, funded by \$4 million from the sale of the tax credits, \$1.9 million from CIDC and \$1 million in private financing. CIDC currently leases the ground floor from CDG, and subleases the space to various businesses. CDG is responsible for leasing the residential units. CIDC employs an individual to maintain the building, but is reimbursed by CDG for the maintenance performed on the residential component, which is the majority of the work. From January 2011 through September 2013, CIDC realized \$154,781 in revenue from this project, consisting of \$136,705 in lease income from commercial tenants and \$18,076 in reimbursements from CDG. Total CIDC expenses for the project during the period were \$206,101, consisting of \$172,728 to lease the ground floor from CDG, \$25,745 for its maintenance employee, \$3,267 for repairs to the commercial space, and \$4,360 for return of security deposits to tenants.

In 2004, CIDC joined with the local hospital and a local development corporation created by the Village of Carthage (EDCC) to acquire and develop fire damaged property in Carthage. The three entities formed a limited liability corporation, known as Carthage Coordinated Development Group (CCDG), to manage this project. CCDG purchased and redeveloped the site. The hospital assumed ownership of a portion of the property for use as a medical office complex. The remainder of the property was developed as a public park, and donated to the Village of Carthage. The majority of the work for this project was conducted prior to our review period and the project was completed in 2012. CCDG was dissolved in May 2013. As part of this project, CIDC borrowed \$145,000 from EDCC to finance a portion of its share of the project. CIDC continues to repay the loan, making \$40,600 in payments during the period January 2011 through September 2013. CIDC still owes approximately \$72,500.

In 2011, CIDC received abandoned property from the Village of Carthage with the intention of rehabilitating it into single family homes. To manage the project, it created the Braman Development LLC. This project is in its initial stages. From January 2011 through September 2013, CIDC spent \$7,900 on this project.

Other CIDC Activities

It appears that CIDC has undertaken activities that extend beyond the management of a hydroelectric facility and economic development and property redevelopment. The CIDC is also incurring expenditures that directly support the operations of local governments. For example, from January 2011 through September 2013 CIDC provided over \$350,000 to the Village of Carthage, including \$215,000 to fund the re-establishment of its Community Development Director position. This position was filled by the same individual who served as CIDC's Community Development Coordinator under the contract with JCIDA. CIDC subsequently modified its bylaws to include the Village's Community Development Director on the CIDC Board. CIDC also provided \$80,000 in grants and loans for a Village public works project, and paid \$58,329 when the cost of the Village's new street lights exceeded its Main Street grant award. Also during 2011 and 2012, the villages of Carthage and West Carthage and the towns of Wilna and Champion incurred more than \$17,000 in grant writing costs. These costs were paid by CIDC.

Conclusion

CIDC was originally formed to acquire a hydroelectric plant and to redevelop the adjacent paper mill property. The recurring revenue the hydroelectric plant generates and its incorporation as a local development corporation give CIDC the ability to engage in a wide range of other activities. Based on our limited scope review, it appears that as the Village of Carthage and the surrounding communities become more dependent on CIDC as a source of financing, the activities undertaken are not always related to its core mission as an LDC. While CIDC has been involved in economic development projects that led to job creation, it has also become involved in managing residential housing units and funding the general operations of local governments in the area. These activities go beyond its enumerated powers and the provisions of its Certificate of Incorporation. Further, while LDCs have broad authority to undertake projects designed to lessen the burden of government, they have no clearly enumerated power under Section 1411 of the Not for Profit Corporation Law to create affiliates for such purposes.