
**Authorities Budget Office
Review of Activities and Expenditures
Watertown Local Development Corporation
October 9, 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 Watertown Local Development Corporation (LDC) are consistent with and advance the public purpose for which it was formed.

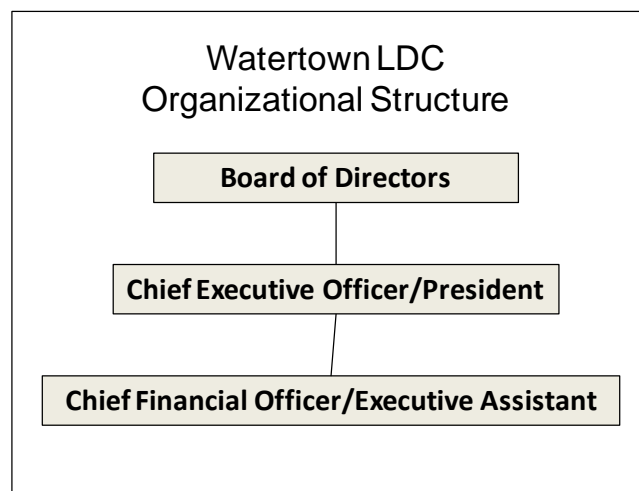
Mission of the Watertown Local Development Corporation

The WLDC was incorporated in 1982 under Section 1411 of Not for Profit Corporation Law. As articulated in its Certificate of Incorporation, the core mission of WLDC is to reduce unemployment, promote and provide for additional employment, encourage the development and retention of industry and attract new industry to the area. WLDC carries out this mission by providing loans and grants for businesses and public and not for profit organizations, as well as property development and marketing. WLDC has also expanded its activities to include financing residential development.

WLDC Corporate Governance Structure

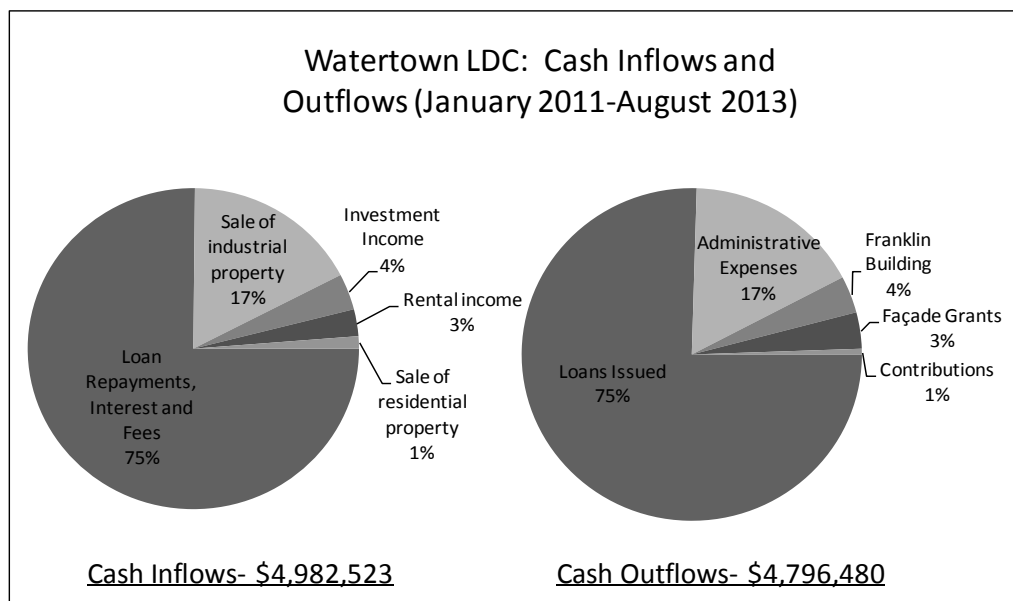
WLDC is governed by a seven member board of directors. According to its bylaws, four of the members serve ex-officio and consist of the Mayor of Watertown, a City Council representative, a representative from New York State Empire State Development, and the Chief Executive Officer of the Jefferson County Industrial Development Agency (JCIDA). The remaining directors are elected by the ex-officio members and must include representatives from two local banks and one representative on behalf of low to moderate income residents.

WLDC is managed by a Chief Executive Officer (CEO) who is assisted by an Executive Assistant who also serves as the Chief Financial Officer (CFO). Historically, the CEO and CFO were employees of JCIDA and assigned to work for the WLDC under a professional services agreement. The agreement called for the JCIDA to pay the salaries and benefits of the employees in the first instance and for WLDC to reimburse JCIDA for these costs as well as pay an annual fee for services. This agreement was terminated in August 2012, following a critical report by the Office of the State Comptroller that challenged the legality of this staffing arrangement. Total staffing related payments for 2011 through 2013 totaled \$554,630.



WLDC Finances

For the period January 2011 through September 2013, the WLDC received over \$4.9 million consisting of \$4.5 million in loan repayments, interest and fees, \$1 million from the sale of an industrial property, \$218,000 in investment income, \$162,000 in rental payments, and \$82,000 from the sale of a residential property. WLDC's total cash outflows during this period exceeded \$4.7 million. This includes \$3.6 million in loans issued, \$808,000 in administrative expenses, \$172,000 in payments for the Franklin Building, \$169,000 for façade grants, and \$26,000 in contributions to various organizations and causes.



WLDC Mission Driven Activities

WLDC's primary economic development activity consists of providing loans from a revolving loan fund, originally capitalized in the 1980's with an Urban Development Action grant, to assist with the start up or expansion of local businesses. For the period January 2011 through August 2013, WLDC made 27 commercial loans totaling more than \$2.7 million, with 66 percent of these loans used to acquire, renovate, or expand commercial buildings. The remaining loans were for business startup, working capital or refinancing of existing debt. WLDC makes various types of loans depending on the project's size and purpose. For example, loans over \$40,000 generally require the participation of a bank as a primary lender. In addition, a microenterprise loan fund was created in 2011 to provide loans to small businesses. The WLDC CEO has authorization by the board to award microenterprise loans up to \$10,000 without board approval. Lastly, loan assistance programs are created to provide loans to businesses economically disaffected by road construction projects. For the period January 2011 through September 2013, WLDC received \$4.5 million in repayments, interest and other loan fees. As of December 2012, WLDC had 93 active loans with an original loan value of \$9.8

million. The WLDC does not require recipients to meet job creation criteria; however it does maintain information on the number of jobs to be created by each loan recipient. For the active loans as of December 2012, there was a total of 370 jobs expected to be created, resulting in one job to be created for every \$26,500 in loan value.

In addition, WLDC markets the City owned industrial park. WLDC has an agreement with the City that allows it to purchase property within the park for \$100 per transaction in anticipation of selling the property to a private interest. WLDC markets the industrial park to prospective buyers and exercises its option when a business commits to acquire and develop a parcel. Pursuant to the purchase agreement, all proceeds from the WLDC's sale of a vacant site are to be used solely for promoting and improving the industrial park. WLDC also separately purchased parcels from the City and constructed two buildings in the industrial park that it subsequently leased or sold. One building was sold prior to our review period. The second building was leased to a business during 2011, providing \$73,326 in rental income. In December 2011, the building was sold to the tenant for \$1,040,815. WLDC realized a gain of \$36,066 from this transaction which can be used for its own purposes. For the period between January 2011 and September 2013, WLDC invested \$17,153 in site planning and other work related to the park.

WLDC also markets commercial space in a recently rehabilitated building in the downtown business district known as the Franklin Building. The building was originally purchased by WLDC in 2002 for development. To limit its liability WLDC created Public Square Developers, L.P. (PSD). WLDC invested over \$1 million in the building and worked with a not for profit organization, Neighbors of Watertown (NOW), to rehabilitate the building for mixed use. The building has 16 affordable housing units on the upper floors and up to 12 commercial units on the ground floor. In 2009, WLDC transferred ownership in PSD to NOW, who is the property manager of the building and is responsible for the leasing of the residential units. The WLDC has a ground lease for the commercial space with PSD and manages and leases the space. For the period between January 2011 and September 2013, WLDC paid \$130,344 to PSD to rent the commercial space and received \$88,900 in rental income. WLDC paid \$41,685 during the same period for other expenses related to the building, such as commissions to a real estate firm that markets the space, and its portion of utilities.

WLDC also works with NOW to offer the Public Square Historic Façade Program. The program was established to provide grants to rehabilitate eligible facades in the City's downtown business area. The program is administered by NOW and WLDC contributes funds for the program and advises on the selection of grant recipients. For the period January 2011 through September 2013, the WLDC provided \$169,321 to fund this program.

Other WLDC Activities

Under the directive of the City, WLDC has expanded its activities to include the development and financing of residential housing to accommodate the increasing population from the Fort Drum military base. As a result, WLDC modified its lending policy to including residential projects. WLDC provides loans to private developers to build market rate housing in the City, with a focus on downtown. During the period 2011 through 2013, WLDC issued four such loans totaling more than \$1 million.

In 2005, WLDC began participating in the Single Family Housing Infill Program administered by the Development Authority of the North County (DANC). The program increases the availability of affordable single family homes for low and moderate-income families. WLDC pays one-half of the construction costs. Net proceeds from the sale of the homes are divided equally between WLDC and DANC. In December 2011, an infill house was sold. The LDC received \$74,455 from the proceeds. However WLDC's financial contribution was \$82,660, resulting in a loss of \$8,000 to WLDC.

In addition, WLDC approved a loan of up to \$200,000 to NOW for its First Time Homebuyer's program. Under this agreement, WLDC advances NOW the funds necessary to purchase and renovate a residential house for a low to moderate income prequalified buyer. Once the house is sold the WLDC advance is paid. WLDC also provides NOW with a line of credit for up to \$300,000 for its rental rehabilitation program. This program is grant based and WLDC's financing allows NOW to cover the costs of the rehabilitation until the grant funds are received following the completion of the project. NOW uses the grant to repay the loan and re-establish its line of credit with WLDC.

WLDC also contributes to various organizations and activities. During the period January 2011 through September 2013, WLDC made contributions totaling over \$26,000, including \$7,500 to the Downtown Business Association to sponsor various activities in the downtown. However, certain contributions are not directly related to its core mission. WLDC contributed \$10,000 for a feasibility study for the construction of a civic center at the Community College. In addition, it donated \$5,000 to a local not for profit for the redevelopment of its administrative building.

Conclusion

WLDC's purpose as a local development corporation is to maximize employment and create employment opportunities. Based on our limited scope review, the WLDC finances economic development activities intended to create jobs and address employment concerns in the City. At the same time, it appears that the WLDC has undertaken a significant role in financing private housing development. 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 finance the construction of residential housing.