

Should retail stores get Empire Zone benefits?

Taxpayers subsidize many big-box stores, but local stores cry foul

August 23, 2007

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Empire Zone boards in Utica, Rome and Herkimer County will consider giving retailers tax breaks that can total millions of dollars for big-box stores, but an Empire Zone serving other portions of Oneida County will not.

The different strategies highlight a growing debate statewide about the relative benefits of tax breaks for particular types of businesses: Does a local economy benefit if a big new retailer opens, creating the possibility that customers will be drawn away from older or smaller stores?

Much is at stake for storeowners, shoppers and taxpayers. Consider:

- In Utica and Rome, Lowe's Home Improvement stores got Empire Zone tax breaks between 2003 and 2005 totaling more than \$6 million. The new Lowe's in Herkimer is not receiving Empire Zone benefits.
- The new Lowe's store being built in New Hartford won't receive such tax breaks, however, because it is located in Oneida County's Empire Zone, which doesn't offer them to retailers.
- In Herkimer County, retail projects creating at least 75 jobs that have a minimum starting wage of \$8.11 can be considered for certification, according to Martin Regan, zone coordinator for Herkimer County.
- Oneida County takes a different approach, choosing to focus on manufacturing, technology and other industries that can support well-paying jobs.

Some advocacy groups complain that retail businesses shouldn't be receiving Empire Zone benefits at all because they're not truly increasing economic activity in an area.

"Just because a Home Depot opens in the community, doesn't mean there is going to be a greater demand for nails," said Frank Mauro, executive director of the Fiscal Policy Institute, a union-backed think tank in Albany.

National home improvement chains, however, say healthy competition gives more shopping power to consumers.

"Big or small, choice is good for the customer," said Jennifer King, spokeswoman for Home Depot, which is headquartered in Atlanta. Spokesmen for Lowe's Home Improvement did not return telephone calls.

Program under fire

The state's Empire Zone program was created in 1987 as an economic-development tool for businesses to encourage job creation and investment in economically distressed areas. In recent years, the program has received criticism from leaders who assert it has allocated billions of dollars in tax incentives to companies that have little job creation to show for it.

Meanwhile, locally owned retailers are crying foul when national retail chains receive millions of dollars in Empire Zone benefits for opening new big-box stores that the local stores can't qualify for because they aren't new or aren't making large expansions.

In the late 1990s, Jay-K home improvement in New Hartford reduced employment through attrition and layoffs by at least 50 positions, said Dean Kelly, who is president of the building supply store his grandfather, Joseph Kelly, founded in 1937. He attributed the job cuts to the arrival of Home Depot and Lowe's.

"There's stores in our community that have disappeared as a result of these big-box stores moving into the community," Kelly said.

Drawing a direct connection between new big-box stores and the demise of existing retailers is difficult. Since the advent of Home Depot and Lowe's since 1997, some long-time names in the hardware business have vanished.

Hallak Hardware has closed both its locations in the past decade. And in downtown Utica, the 136-year-old Doyle Hardware closed up shop last winter.

Local retailer bounces back

In Jay-K's case, the store was able to rebound the past few years as it emphasized customer service and knowledge of services and products. The Seneca Turnpike store also ratcheted up its advertising and marketing campaigns, and has become well known the past two years for its three-dimensional billboards along the North/South Arterial.

Still, challenges remain for Jay-K. Lowe's is building its new store nearby in New Hartford, which will bring big-box competition nearly to Jay-K's doorstep.

In that case, at least, Empire Zone benefits won't be a benefit for Lowe's because it sits in Oneida County's zone, which doesn't offer those tax breaks.

According to Kelly, that makes sense. The Empire Zone program is a more effective program when used as an incentive for manufacturing companies, rather than retailers that might shift jobs from one retailer to another, he said.

Other local owners of stores in the home-improvement industry agree.

"The little guy that's paying taxes just gets pushed under," said Robert Thrasher, who has owned Oriskany Hardware & Variety on River Street for 25 years. Thrasher, 61, said he plans to retire in December. He hopes to sell the store.

The Fiscal Policy Institute's Mauro raised a similar point.

"It's one thing if a big-box retailer isn't asking for any special permission or any special subsidies," Mauro said. "But the government should not be subsidizing a business that's only going to take jobs from existing employers."

Retailers' view

Meanwhile, national retailers say there is more than enough business to go around. Some say it is the strength of a local market, not economic development incentives, that is their primary concern when deciding where to site their stores.

Wal-Mart Stores Inc. chooses store sites based on several factors, including size of available land, cost of land, zoning, road access, population density and proximity to existing stores, Wal-Mart spokesman Keith Morris said.

"The issue of tax credits falls out of the scope of this list of criteria because such a topic would not typically surface until after we have chosen a site and it is offered by an economic development authority at the state or regional level," Morris wrote in an e-mail responding to a reporter's questions.

No Wal-Mart stores received Empire Zone tax credits in the Mohawk Valley between 2003 and 2005, state records show. The company's distribution center in Marcy, located in the Oneida County Empire Zone, received \$4.4 million in Empire Zone tax credits in 2004 and 2005. In 2005, it employed 866 full-time employees and 757 part-time employees, and paid an average wage of \$17.34 an hour.

Lowe's stores in Rome and Utica received \$6.58 million in Empire Zone credits in 2003 and 2005, according to Empire State Development, the state economic development agency that oversees the Empire Zone program.

The Rome store employed 62 full-time employees and 87 part-time employees in 2005, when it paid an average hourly wage of \$9.98. The Utica store employed 90 full-time employees and 91 part-time employees, and paid an average hourly wage of \$10.27.

No Home Depot stores locally received Empire Zone benefits during that time period, records show. Its spokesperson said the retailer has found its presence can improve business for competitors, not hurt it.

"We have seen that there's been cases where it's increased their business because we've created an appetite for the category," King said.

Empire Zones' criteria

When considering applicants for certification, Empire Zone boards in Rome and Oneida County will consider the possibility of disruption to competitors. The primary factors for receiving Empire Zone tax credits, however, are job creation and capital investments, said Peter Zawko, Empire Zone coordinator for Oneida County and Rome.

And even then, companies or stores might not get tax breaks.

"Becoming certified does not guarantee benefits," he said.

Each local Empire Zone Administrative Board has in its development plan its own criteria for what types of businesses it will certify.

In Utica, the greatest concentration of businesses is probably in the retail sector, so the Empire Zone program allows most types of businesses to qualify, said Jack Spaeth, Empire Zone coordinator for the city of Utica and an economic-development program specialist.

"There's a cost-benefit analysis that needs to be done," Spaeth said. "So if the business is lower than a particular benchmark, then a justification would need to be made."

Mitchell Franklin, assistant professor of accounting at Syracuse University, said he isn't in favor of barring retailers from being certified for Empire Zone status.

"In some cases, a retail store might come in and bring an item that isn't available in an area," Mitchell said. Retail businesses applying for Empire Zone certification should be evaluated on a case-by-case basis to look at how they will affect existing stores, he said.