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A LITTLE HELP FROM ... United Bank Corp.'s purchase of new headquarters on Western Avenue in Guilderland was accomplished

with a \$5 million loan obtained through tax-exempt Industrial Revenue Bonds (IRBs) issued by the town agency.

Who won on bank's deal?

● *Second of four parts*

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(with staff reports)

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Two years ago, United Bank Corp. of New York, a \$2.3 billion bank holding company with State Bank of Albany as its flagship, decided it had outgrown its offices at 60 State St. in downtown Albany.

Corporation executives looked around and found a building they liked at 1450 Western Ave. in the Guilderland hamlet of McKownville.

Then, the bankers approached the Guilderland Industrial Development Authority (IDA), a low-profile local agency whose part-time volunteer chairman is Robert Reschke, an official of Key Bank Inc.

United Bank won approval to finance the building purchase with a \$5 million loan obtained through tax-exempt Industrial Revenue Bonds (IRBs) issued by the town agency and sold to Morgan Guaranty Bank.

Because interest earned on the bonds is tax



free, Morgan Guaranty agreed to charge United Bank only 6.75 percent interest, about 30 percent below the rate for a conventional bank loan.

"They had the financing all prearranged in a deal with Morgan Guaranty," Reschke recalls.

Bank spokesman Jack Mischou says the bank's investment house suggested using IRB financing. "It was available and we would have been foolish not to take advantage of it."

Guilderland, he says, now has a "considerably more valuable piece of property" because of

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bank-financed improvements, and the building is 100 percent occupied, instead of one-third vacant, as it was when United Bank took over.

"Everyone wins," he says.

But, critics of IRB financing are not so sure.

The U.S. Treasury, they point out, lost the taxes it would have earned on interest from a conventional bank loan to finance United Bank's purchase.

And, the critics say, aid to United Bank is in effect a taxpayer subsidy to a business move from a struggling downtown area to the suburbs.

"Too often, the bonds have been used to finance the out-migration of businesses from cities to outlying areas," says Michael Barker, director of policy studies for the Washington-based Council of State Planning Agencies.

He notes some states, but not New York, have restricted commercial IRB loans to projects in areas of high unemployment and urban blight.

Mischou says the 60 State St. building still has the offices of State Bank of Albany.

And, Reschke defends the aid to a bank leaving downtown for a suburban office building, noting, "They had made up their minds they were going to move."

He adds, "If it wasn't us, it would have been Colonie. We had a vacant building. So, I'm sure, does Colonie," he says. "It comes down to a case of them or us."

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The response of the Guelderland IDA to the United Bank proposal illustrates the often-intense spirit of competition among IDAs within New York state and even in the same county.

It is a competition, critics say, that pits one community against another in a bidding war for businesses and allows corporate executives to shop around for the best deal.

That competition within New York state was not envisioned by the 1969 law permitting use of IRB loans in the state, an Assembly committee reported recently.

When then-Gov. Nelson Rockefeller signed the 1969 IRB bill, the stated purpose was for "preventing unemploy-

ment and economic deterioration."

And, the focus was on attracting out-of-state industry.

The availability of tax-exempt financing would "help communities in New York state to compete more effectively with communities in over 40 other states where industrial development agencies are now operating," Rockefeller said.

Arguing in support of the bill, the Department of Commerce had sent a memo to Rockefeller citing it as "an effective tool to meet the competition from most other states, who are able to provide money for industrial and manufacturing plants and equipment at substantially lower interest rates."

And, the bill's sponsor, Assemblyman Kenneth G. Bartlett of Onondaga County, wrote the governor's counsel that "the purpose is to persuade an out-of-state industry to locate in a town, village or city."

The legislation contained what Rockefeller called "a strong anti-pirating provision to prevent economic raiding within the state."

IRB financing of moves within the state was to be allowed only if necessary to discourage the company from the leaving the state, or to preserve the company's competitive position within the industry.

But, a study this year by the Assembly Committee on Oversight, Analysis and Investigation found that in the 11 years since the bill became law, the original focus of the legislation, and the prohibition on intrastate moves, often have been ignored.

"IDA bonds are used for intrastate expansion, rather than for drawing out-of-state industry into the state, contrary to the act's major purpose," the committee reported.

"In fact, almost all IDA financing goes to industry already within New York state for expansion, acquisition and development," Committee Chairman Dennis Gorski, D-Sloan, said, reporting that of 168 projects financed by IDAs in New York City and Niagara County, "not one was for the purpose of drawing in out-of-state industry."

The prohibition against "pirating" is virtually toothless, because each IDA decides whether or not an intrastate move fits the guidelines, without any

state review, the report s-

"Their real competitor: thus the major purpose has failed," the com-

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IDA funding.