



Testimony of Reinvent Albany for the Joint Legislative Hearing On Economic Development

January 30, 2024

Thank you for the opportunity to testify at this hearing. Reinvent Albany works for a transparent and accountable New York government. We think state and local government should make it as easy as possible for people to start a new small business or grow an existing business in New York. We support both robust government investment in public physical and human infrastructure – roads, bridges, transit, clean water, and schools – and welcome the dynamism, diversity, and creativity of New York’s private sector.

As a leading watchdog group, we are very familiar with New York’s many flavors of government dysfunction and poor behavior.

So it’s saying something that we believe the [\\$4.4 billion in subsidies](#) New York State gifts to businesses every year is probably the single most misguided, corrupt, irrational, and wasteful thing done with taxpayer funds.

We believe the basic premise behind New York providing taxpayer subsidies to companies is totally flawed, unsupportable, and a particularly wasteful form of trickle-down economics. In a nutshell, New York’s economic development philosophy is to use taxpayer funds to pay businesses to create jobs, instead of paying them to provide goods and services, like replacing old water pipes, putting a new roof on a school, or rebuilding the roadway.

Unfortunately, the public gets little from its investment if a business fails, relocates, or cuts jobs – which is a normal occurrence in a capitalist economy – and has happened repeatedly in New York. (Anyone remember IBM’s heavily subsidized manufacturing operations?)

If it were up to us, New York State would cap state and local business subsidies *today* and phase out most subsidies over the next decade. We would see state and local economic development energy focused on public infrastructure, including universal

world-class broadband, bolstering workforce development and apprenticeship programs, and rationalizing regulation and the tax code.

But it's not up to us, and New York's political leadership is deeply ensconced in what has become a kind of self-fueling crony capitalism in which subsidized businesses (and the unions that represent their workers) provide political contributions and validation for the politicians giving them taxpayer funding.

Five Specific Reasons New York Should Sharply Reduce Business Subsidies

1. Overall, taxpayer subsidies to businesses are a waste of public funds.

Countless independent experts like [Tim Bartik](#) and [Marilyn Rubin](#) have painstakingly shown there is little evidence that taxpayer subsidies, whether tax abatements or project specific grants, are a cost-effective way to create and sustain good jobs. Additionally, few subsidy programs can be shown to come close to paying back what they cost to taxpayers.

2. There is no such thing as free money. According to the Government Accounting Standards Board – a non-profit chartered by Congress – government subsidies to businesses, whether grants or tax abatements, are the same as direct public expenditures by taxpayers. A dollar spent on business subsidies is a dollar not spent on clean water, schools, fighting COVID, or rebuilding roads, bridges, and transit.

3. New York State and local subsidies to a small subset of lucky businesses are unfair to both the general public and other businesses. Subsidies to some businesses mean higher taxes on other businesses and the general public. Related, New York cannot have a fair tax code if it includes billions in tax breaks to politically favored businesses.

4. Business subsidies are inherently politicized and are a massive ongoing corruption risk for NYS and local government. We doubt that business subsidies can be fairly awarded in New York until there are massive changes to state ethics and campaign finance laws, and independent enforcement of those laws. There is a reason that subsidies are at the center of the biggest NY corruption scandals of the last decade. The wealthy people who control the businesses receiving billions in state subsidies are among the largest campaign contributors to the governor and legislative leaders. Whether it's tax abatements benefitting real estate, film and TV production, horse racing, or convention centers for hotel unions and construction trades, you can follow the biggest subsidies to the biggest campaign contributions.

Grifting for 421-a tax abatements led to the Moreland Commission scandal and Sheldon

Silver scandal. Buffalo Billion produced the biggest bid-rigging scandal in New York history and led to the downfall of Alain Kaloyeros, LP Ciminelli, and Joe Percoco. And that's the tip of the iceberg. Our guess is that local IDAs and LDCs probably have the highest corruption risk of any type of government in New York. They are beset by cronyism, are generally opaque and poorly overseen, and can basically print money in the form of property tax abatements.

5. New York is hooked on mega-subsidy deals that are a terrible way to create and sustain good jobs, and that are often total boondoggles. The Investigative Post reports that from 2000 to 2016, New York spent [\\$11.8 billion](#) subsidizing more \$50-million-plus “mega-deals” than any other state. (NY is half as big as California.)

Sadly, New York government seems perversely attracted to subsidizing the types of mega-projects that have the poorest return on public investment:

- *Computer chips and high tech manufacturing* are enormously expensive, highly automated, and create very few jobs per NY subsidy dollar. Because tech manufacturing changes so fast, chip fabs need massive amounts of cash every few years. At Tesla Riverbend, Buffalo, the state paid out roughly \$960 million to create 1,600 jobs, or \$600k per job. GlobalFoundries in Malta near Albany is one of the biggest chip fabs in the world and is owned by the government of the United Arab Emirates. GlobalFoundries has gotten billions in state subsidies and was widely hoped to be a replacement for IBM's heavily state subsidized manufacturing operations, which went bust.
- *Stadiums and arenas* do not create many jobs or economic activity. Buffalo, Detroit, Cleveland, and Cincinnati have lost huge amounts of population and jobs since they landed NFL franchises. The Buffalo metro area population has shrunk about 20% since the Bills came. The Bills are a great NFL team, and we hope they win the Super Bowl soon. But everyone should understand that public subsidies for a new Bills stadium is money that ultimately goes into the owner's pocket, and according to the state's own studies, will not create enough jobs or revenue to justify the public expense.
- Poorly defined and opaque *public-private partnerships* are often a way to disguise big subsidies and shift risk onto the taxpayer.

At a minimum the State Legislature should make the massive amount of subsidies the state provides far more transparent, easier to understand and evaluate, and less manipulated by corruption and pay-to-play.

Reinvent Albany urges the Legislature and State of New York to take the following actions:

- 1. Prohibit IDAs from abating revenue that would go to schools**
- 2. End NY's Opportunity Zone tax break**
- 3. End state subsidies for stadiums, arenas, and convention centers**
- 4. Say no to \$1 billion (\$500 million new) in subsidies for chip makers**
- 5. Phase out the film/TV tax break and theatrical production credit**
- 6. Eliminate NY Works**
- 7. Vastly improve the state's Database of Economic Incentives**

1. Prohibit IDAs from abating revenue that would go to schools

It's time for the state to prohibit IDAs from abating tax revenue that costs NY students over a billion dollars every year by passing [S89 \(Ryan\) / A351 \(Bronson\)](#) in the budget.

NY schools lose a staggering amount of money to IDA tax abatements – up to \$1.8 billion annual, [according to Good Jobs First](#). As they note, many of these abatements disproportionately affect the underprivileged and students of color.

In New York State, unelected and undemocratic Industrial Development Agencies (IDAs) and Local Development Corporations (LDCs) have the superpower of deciding which businesses have to pay taxes and which can free-ride on taxes paid by others. Broadly, Reinvent Albany believes that the number of IDAs and LDCs should be greatly reduced. We believe IDAs and LDCs are often poorly governed, waste taxpayer money, and are a corruption risk.

In Fiscal Year 2021, the State's 107 IDAs handed out a total of [\\$1.9 billion worth of business subsidies](#) in the form of tax exemptions to private businesses (\$1.1 billion if you subtract PILOTs). Unfortunately, information about who is getting subsidies and how much they are getting is not transparent. The state and its localities do not collect data on which businesses are getting subsidies, how much they are getting, and how many jobs they promise and do actually create. This is because IDA deals are not included in the state's [Database of Economic Incentives](#).

What we do know is that IDA and LDC subsidies do not grow economies, nor do they contribute to the state's overall job growth. We know this because scholars and other independent scholars have, time and time again, shown that [business subsidies do not work](#). Further, business subsidies are unfair, leaving some businesses to pick up the slack from those who do not pay taxes, and [contribute to inequality](#).

2. End NY Opportunity Zone tax break

By 2029, Opportunity Zone capital gains tax breaks will cost New York [up to \\$424 million annually](#) in foregone revenue according to the Citizens Budget Commission. (\$284 million for New York State, \$140 million New York City.) Importantly, under New York’s Opportunity Zone law, investors can receive a tax break if they place their capital gains in Opportunity Zones [anywhere in the country](#). That means tax revenue that could support a school in the Bronx can instead go to help support a luxury tower in Florida.

As our [“Guns, Oil, and Crypto”](#) report showed, Opportunity Zone investments are not limited to high-end real estate – they can also go to gun manufacturers, oil and gas, and cryptocurrency, as Opportunity Funds have been set up to support all of these. In other words, the program could be contradicting its own policy goals – enacting gun control laws and reducing carbon emissions – under the program.

The program was supposedly created to help support high-poverty/low-income communities, but as reporting in [the New York Times](#), [Wall Street Journal](#), and [ProPublica](#), the greatest beneficiaries have been Trump cronies and the super-wealthy, and OZ properties often include luxury apartments with dog spas and indoor golf simulators.

In 2021, the state commendably ended part of its Opportunity Zone tax break. It’s time for the state to finish the job – we urge you to pass [S543-A \(Gianaris\) / A2170-A \(Dinowitz\)](#) and end this Trump handout for good. The bill is currently supported by [over 30 organizations and unions](#), including the New York State Teachers Association, CWA District 1, and RWDSU.

3. Say no to \$1 billion (\$500 million new) in subsidies for chip makers

We oppose the Governor’s proposal for \$1 billion in subsidies for computer chip manufacturers, \$500 million of them new. Most of this money would be for a partnership to establish a new semiconductor research center at NY CREATES’s Albany Nanotech Complex, and will pay for building a new lithography machine. All this is in addition to the up to \$5.5 billion provided for Micron as part of the state’s CHIPS program.

The state claims that these policies will create jobs, but economist Tim Bartik has shown that these subsidies only affect business location decisions [2 to 25% of the time](#) – meaning that up to 98% of the time, governments are simply giving tax revenue away. We have seen no data suggesting that chips subsidies will fare any better.

4. Phase out the \$7.7 billion film/TV subsidy and theatrical production credit

Last year, the state committed [\\$7.7 billion](#) for the film/TV industry by increasing its handout from \$420 million to \$700 million annually over 11 years. Major studies have repeatedly shown that [film/TV tax credits are an ineffective use of taxpayer funds](#), which is one reason many states have [ended their tax break](#).

It's time for the state to wean itself off this giveaway to Hollywood. One approach we've recommended is [reducing the tax credit by 10 percent every year over the next decade](#).

We also call for the state to take steps to end its theatrical production credit, which was increased from \$200 million to \$300 million last year.

5. Eliminate NY Works

We oppose the \$400 million proposed in Governor Hochul's budget for the New York Works program. ESD says that the program "provides capital grants to support projects that facilitate an employer's ability" to retain or attract employees, or to support infrastructure projects that help bring in business. The lack of safeguards in the program makes it seem more like a slush fund, highly vulnerable to waste.

6. Fully fund the Authorities Budget Office

Last year, the Governor and Legislature came together to provide an unprecedented \$3.359 million for the Authorities Budget Office, an increase we supported. This year, the Governor proposed a further increase to \$3.407 million. We support this increase, and encourage the state to go further by providing the ABO with \$5 million [as we and four other government watchdogs called for in 2021](#). This will help the ABO to fulfill its mission of overseeing the state's [591 public authorities](#).

Thank you for your consideration. If you have any questions, please contact Tom Speaker at info@reinventalbany.org.