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

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Reinvent Albany strongly supports broad, fair, evidence-based New York State investments in physical, social, and workforce infrastructure – think Erie Canal, clean water, MTA capital plan, universal pre-kindergarten, childcare, community colleges, and technical education. These forms of economic development produce a high return on the taxpayer's investment. We also support state efforts to help the private sector by modernizing licensing processes, ensuring regulations are sensible, and taxes and fees fair and reasonable.

Unfortunately, New York State is spending an estimated $5 billion a year on "economic development," mostly in the form of tax breaks for big businesses. The State's theory is that wealthy business owners will use state subsidies to hire people who will create more wealth for the business owner. (This used to be called "trickle-down economics.")

Baked into the State's subsidy logic is that wealthy business owners will not hire more employees or grow their business without state subsidies. This is completely untrue.

New York's most authoritative study of business subsidies remains the 2013 report to the Governor's Tax Reform and Fairness Commission, which said "Business incentives violate principles of good tax policy and tenets of good budgeting… and research conducted since the mid-1950s [do not] show they impact net economic gains." In fact, there is an overwhelming national consensus among independent experts from the left, right, and center that government subsidies to businesses are a very ineffective use of public funds. (Our written testimony includes a link to twenty notable studies.)

We strongly recommend that New York State moves toward economic development based on facts, fairness, and measurability. Sadly, the Governor's budget doubles down on discredited, politically-driven economic development spending and bad public policy. One example among dozens: Community Colleges produce a very high return on investment for public funding and house a substantial portion of state workforce development programs. Yet the Governor wants to cut state support to Upstate Community Colleges by -8.8% to $735 million, while raising the Film Tax Credit by 55% to $700 million a year.

Regarding the governor's budget, we urge the legislature to:

1. **Reject billions of new and expanded state business subsidies:**
    a. No to expanded and broadened Film/TV tax credits
    b. No to expanded theatrical tax credit
    c. No to resurrecting Start-Up NY as EPIC
    d. No to expansion of Excelsior tax credit program
    e. No to state financing of horse racing facilities
    f. No to state subsidies to sports stadiums, arenas, and convention centers
    g. No to extension of costly and inefficient 421-a tax abatements
2. **Freeze existing subsidies**
3. **Rollback select subsidies**
    a. Fully end the New York Opportunity Zone tax abatement program
    b. Fund needed Penn Station improvements with public funds and get rid of nonsensical property tax abatements for Vornado
    c. End ability of local IDA's to abate local property taxes going to schools
    d. Phase out illogical subsidies to NYRA horse racing

Assessment of Major New York State Economic Development Programs

End NY Opportunity Zone Tax Break

Two years ago, New York partially ended its tax break for Opportunity Zones in the 2021 budget. If the state does not finish the job by passing S543 (Gianaris) / A2170 (Dinowitz), according to the Citizens Budget Commission, New York could lose up to $420 million annually from 2029 ($284 million from NYS, $140 million from NYC) – and much of this money could be going to guns, oil, and crypto.

Though the program was supposedly intended to boost investment in low-income/high-poverty areas, reporting in the New York Times, Wall Street Journal, and ProPublica has revealed that the program has largely benefited the extremely wealthy, including through properties such as superyacht marinas and high-end apartment buildings with dog spas. In an upcoming report, Reinvent Albany will detail how Opportunity Zones can also benefit gun sellers, oil companies, and crypto mining.

After the Supreme Court struck down New York City's concealed carry law last summer, the state acted quickly to establish stronger gun control protections. But under the

Opportunity Zone program, the state and city could be funding investments in gun sellers. One "Opportunity Fund" has been set up to invest in Big Daddy Unlimited, an online gun marketplace that acts as an Amazon for firearms – and this company could be receiving OZ investments from New York. In other words, the state's tax policy is contradicting its public policy goals.

In 2019, New York also passed the CLCPA, widely regarded as one of the most ambitious state efforts to reduce carbon emissions in the US. But OZs may also be causing the state to incentivize more carbon emissions – at least three Opportunity Funds exist to exclusively support oil and gas companies. Furthermore, though the state has tried to crack down on emissions from crypto mining, two OZ funds support crypto – and all of these could be receiving New York tax benefits.

Since the program allows for investments in any Opportunity Zone in the country, the list does not stop at guns, oil, and crypto. Opportunity Zones may also be pouring New York tax dollars into superyacht marinas, a casino on the Las Vegas strip, hangars for billionaires' private jets, luxury apartments with pet spas, an outdoor mountain biking park in Tennessee, and a gold storage facility. No one could seriously argue that this benefits the people of New York.

At least 16 organizations and six unions have called for the state to end the tax break. We urge the legislature to pass S543/A2170 in the budget and finally end this wasteful NY handout.

Penn Station Redevelopment and Subsidies for Vornado

The State, through Empire State Development (ESD), has proposed a controversial redevelopment project to partially fund the State's $1.75 billion share of the $7 billion reconstruction plan for Penn Station. Fixing Penn Station is an important and worthy cause, and Reinvent Albany supports improving Penn Station and New York's major transit hubs to better serve transit riders as an important part of economic development.

However, we strongly oppose the current scheme to finance the Penn Station project. The Governor's plan relies on a complex and opaque payment-in-lieu-of-taxes (PILOT) scheme whereby major Hochul donor Vornado Realty Trust, who owns or controls a majority of the property covered by the General Project Plan (GPP), will get a roughly $1.2 billion tax break.

What is the logic of this? PILOTs are not even intended to cover the full state share, and won't be able to adjust to cost overruns, nor will the real estate market. This means that the State will have to pay for any increases in costs. This is especially troubling given signals by Vornado that the company is facing "headwinds" and is expected to delay construction at the site.

More troubling is that after dozens of meetings, press conferences, and hearings held by ESD and the Governor, the public and policymakers – including the Legislature – still have not seen basic financial details about the project. Tellingly, the New York City Independent Budget Office (IBO) said in its critical May 2022 report on the project that it was "impossible for IBO to evaluate the financing proposal and quantify its impact on the city and state."

Among the questions the Legislature and the public still do not have answers to are:

1. **What is the total cost to city and state taxpayers of this financing scheme, versus the State using conventional borrowing?**
2. **What is the impact on city real estate tax revenues, given the proximity to Hudson Yards?** The Penn Station area does not exist in a vacuum, but rather in the center of midtown Manhattan.
3. **Exactly how much is the development expected to raise in support of the renovation project?** It is a gamble to base revenues off of development that is speculative and would occur over multiple decades.
4. **How much does the State intend to give the developer in tax breaks via discounted PILOTs?** If the Hudson Yards model is used, there could be $1 billion *or more* in tax breaks (see research from the Schwartz Center for Economic Policy).
5. **How long will taxpayers pay interest payments on project bonding before Vornado properties generate any revenue?** PILOTs don't begin to generate revenue until the completion of construction, which ranges from 2028 to 2044 for all the buildings (see page 12 of IBO's report for details).
6. **How much will the State be paying in credit enhancement mechanisms?** Because borrowing based on PILOTs is considered risky by bond raters, the State must guarantee the bonds.
7. **What are the risks to the taxpayers if development does not go as planned**, and Payments in Lieu of Taxes (PILOTs) come in at lower levels? (See IBO's research about city payments made in Hudson Yards.) Given that subway ridership remains at 60% of 2019 levels and the return to office is slow, there are concerns about the resiliency of the real estate market in the post-COVID world.
8. **What assumptions are going into making the City "whole"** in terms of projections from current tax revenues as well as increased costs for city services?
9. **As part of this redevelopment project, why is the State not proposing to end Madison Square Garden's $44 million annual tax abatement**, which has cost New York City over $875 million in lost tax revenue since 1982?
10. **What is the development schedule?** The schedule and projected build years are unknown, and already are not aligning with ESD's initial expectations in the General

Project Plan (GPP). Does ESD know when the project will proceed? Has ESD had conversations with Vornado about their plans for development, and if so, why hasn't this been made available to the public?

These and other questions still remain despite repeated requests for clear financial information from State Senators, watchdog groups, Community Boards, the City Planning Commission, and editorial boards.

Why is ESD so confident about gambling billions of state taxpayer dollars? What does ESD know that they have not shared?

We strongly suspect the math doesn't add up for this project, and it will be a huge giveaway to Vornado, in which all the risk falls squarely on the State, and state taxpayers will have to bail out borrowing for the new Penn Station. That is exactly what happened just blocks away in Hudson Yards.

Let Start-Up NY Stay Dead

The Governor proposes resuscitating the failed Start-Up NY as EPIC, the Extended Prosperity and Innovation Campuses program, which will allow businesses to operate tax-free for 10 years on or near university or college campuses. Setting aside the fact that we already know business subsidies like tax abatements don't work, we also already know that Start-Up NY was a massive failure. Why should we try it again?

In 2016, the State disclosed that it spent $53 million to promote the Start-Up NY program in its first two years of operation while creating just 408 jobs. (About $130,000 per job!)

The Legislature should be asking why Start-Up/EPIC will work this time. We strongly suspect Start-Up/EPIC is a fatally flawed concept. Based on press accounts it appears Start-Up is simply too expensive and unworkable for ESD, or any agency, to oversee in a cost-effective way. It is inherently expensive for government to vet, recruit, and audit businesses to keep public funds from being lost to fraud.

Plus, the natural rate of business failure is high, so it is very likely most jobs subsidized by EPIC/Start-Up will not last long. According to the Bureau of Labor Statistics, prior to COVID, less than half of businesses survived five years and only one third for ten years.

Furthermore, the best evidence is that state subsidies influence business location decisions at most 25% of the time. In sum, the subsidy math for Start-Up/EPIC does not add up and this program will never offer a good return on the tax-payer's investment.

Subsidies for Chip Fabrication

Economist Tim Bartik has shown that subsidies only affect where companies decide to locate at most 25%, and at least 2% of the time. Companies themselves say that access to infrastructure, a qualified workforce, and quality of life are more important factors than tax breaks.

We have seen no evidence suggesting that chip manufacturers are an exception. So why does New York State love handing out taxpayer dollars to chip manufacturers?

In 2006, the State forked over $1.2 billion ($1.76 billion in today's dollars) to GlobalFoundries. In 2017, the company received the most Empire Zone tax credits in the state, topping out at $586 million.

Unfortunately, it did not stop with GlobalFoundries. In early October 2022, Governor Hochul, U.S. Senator Schumer, and Onondaga County Executive McMahon announced that Micron, a U.S.-based memory and storage manufacturer, will build up to four chip plants, also known as fabs, in Central New York. In exchange, New York State, via Empire State Development (ESD), offered up to $5.5 billion in "Green" CHIPS subsidies. ESD will also provide funding for all roadway improvements for Micron's Phase 1 of construction.

Chip manufacturing is – like other industries – susceptible to boom and bust cycles. In December of last year, GlobalFoundries announced it would be laying off 220 workers from its plant in Malta. Less than a month later, Micron announced it would be laying off 10% of its workforce. These events call into question the wisdom of New York State investing large sums of taxpayer dollars in a venture that appears to be a sinking ship. While state officials insist the downturn won't impact the company's plans to build near Syracuse, it's important to keep in mind that officials' rosy job projections rarely reflect reality.

IDAs and LDCs

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. 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 2020, the State's 108 IDAs handed out a total of $1.7 billion worth of business subsidies in the form of tax exemptions to private businesses. 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.

There are bills before the Legislature this session that begin to chip away at the most egregious IDA and LDC practices. S1737 (Krueger) establishes a database of deals for local entities that hand out business subsidies, which would be managed by the Authorities Budget Office (ABO). The database would shine light on the massive amounts of taxpayer dollars that IDAs hand out to private businesses.

S89 (Ryan) /A351 (Bronson) prohibits IDAs from abating taxes that fund schools. We know that business subsidies don't work, but thankfully we also know that a good education and strong teachers have a positive return on investment and can support a lifetime of success for New Yorkers.

S127 (Ryan) / A1048 (Solages) bans state and local subsidies for e-commerce warehouses and distribution centers. Huge e-commerce companies like Amazon, Walmart, Best Buy, and Home Depot do not need nor deserve handouts from New York taxpayers. Research by national watchdog Good Jobs First clearly shows companies locate their distribution networks based on access to highways and major markets, not subsidies.

Let 421-a Expire

We strongly oppose the Governor's proposal to extend the 421-a tax credit for landlords and investors. As the Community Service Society of New York has shown, 421-a already costs NYC $1.7 billion a year and the benefits have not justified the cost – the program's price has risen by 400% and the city's housing crisis is as bad as ever. The state needs to come up with a housing proposal that does not force the City to bleed massive amounts of revenue every year for little benefit.

Carefully Review Commercial to Residential Conversion Tax Breaks

Governor Hochul proposed to create the Affordable Housing from Commercial Conversions Tax Incentive Benefits (AHCC) program, which will provide a tax break to developers in New York City who convert a commercial, manufacturing, or other non-residential building to residential use.

Before creating a huge new subsidy program, the State needs to carefully and transparently review what is known about the return on investment of other such programs.

No Expansion of Film Tax Credit

We were horrified to see that the Governor proposed to increase the Film Tax Credit from $420 million to $700 million, relaxing qualifications to receive the credit, and increasing the percentage of costs that film studios can recoup. The evidence does not support a subsidy this large; it does not even support a subsidy at the $420 million level. We join our colleagues at the Citizens Budget Commission (CBC) in calling for an elimination of the Film Tax Credit.

The credit, originally established in 2004 and capped at $25 million annually, has since grown to $420 million. However, unlike a typical cap, once the State has awarded all the credits in a given year, future allocations are awarded for current projects. This means that in any given year, the State is forking out well over $420 million to film studios. For example, in FY 2018, the state forked over $534.2 million.

Perhaps unsurprisingly for anyone who lives in the real world guided by facts, film tax credits do not work. University of Southern California (USC) Professor Michael Thom, who has published several studies of the film tax credit, found the tax credit in New York State had no effect on employment whatsoever. Why are we even considering increasing a subsidy that does not work and should be scrapped altogether? The Film Tax Credit should be eliminated.

No Expansion of Theatrical Production Credit

We oppose the Governor's proposed expansion of the state's musical and theatrical production credit from $200 million to $300 million. This program was started during the pandemic to boost theaters that were struggling to attract audiences. Now that the state of emergency is over and audiences are trickling back in, we see no reason to expand the credit. The state has not made a case that the industry is in need of a financial boost.

No Subsidies for Stadiums and Arenas

Last year, despite overwhelming data showing stadium subsidies are a waste of money, the State passed legislation to give $880 million in taxpayer funding to the billionaires who own the Buffalo Bills. This is, unfortunately, just a fraction of what the Bills get from taxpayers. Taxpayers will shell out [$1.13 billion] to build, maintain, and operate a new stadium for the bills over the next 30 years.

Unfortunately, despite this huge outlay of taxpayer dollars, there isn't much keeping the Bills in Buffalo. Under terms spelled out in a memorandum of understanding between the state, county, and team, the Bills could walk away at any time, unless a judge blocked them. (If they leave in the first 15 years, they would have to pay the state and county the $850 million invested to construct the stadium and another $13.3 million in capital and operating assistance for every year they occupy the stadium.) And, according to the terms of the Bills' lease, they would have an easier time abandoning their new stadium for another city than any other NFL team who plays in a stadium built with taxpayer dollars.

It's not just stadiums. New York State has also shown a willingness to throw taxpayer dollars at arenas. The tax exemption for Madison Square Garden (MSG), which dates to 1982, costs an estimated $43 million a year. According to the NYC Independent Budget Office, MSG has saved roughly $875 million, adjusted for inflation, since the tax exemption was put in place.

There is no reason the privately-owned arena should get this massive giveaway of taxpayer dollars. The Knicks, who play at MSG, are worth $5.8 billion. Similarly, the Rangers, who also call MSG home, are worth an estimated $2 billion. MSG is a highly-profitable venue that should be paying its fair share of property taxes like other profit-making enterprises in the State. Reinvent Albany strongly supports legislation (S1632 Kavanaugh / A846 Weprin) that would repeal subsidies to MSG.

No Subsidies for Convention Centers

Another popular "economic development" tool is to use taxpayer dollars to build convention centers. Unfortunately – and yet again – there is no evidence that investing in, building, expanding, or upgrading convention centers does anything to help the economy. Economic impact models typically promise tens of thousands of visitors and millions in public spending. But, research has shown that these models are simply false.

The estimates of economic impact offer no serious basis for comparing alternative investments or their returns. While some studies compare new or expanded centers to a "no expansion" alternative, they almost never extend their analysis beyond the narrow issue of more convention space. What if, instead, we invested millions in childcare or workforce development? The models don't consider this!

Historically, the actual performance of new or expanded convention centers falls well short of economic projections. Even in the best of times, convention centers lose money.

The convention business, in general, is susceptible to severe boom-bust cycles and faced steep downturns after the terrorist attacks of 2001 and the Great Recession of 2008, and now in a world with COVID-19. Why build and expand convention centers when no one is going?

No Loan for Belmont

We oppose the Governor's proposed $455 million in conduit debt for the Belmont race track. The state claims that the loan will be paid back in full, which seems highly unlikely given the industry's financial struggles. As the Times Union has documented, the state has provided $2.9 billion in subsidies to prop up the failing industry since 2008, and just this week, three experts told the New York Focus that several key claims in a study supporting the proposal appear to be false.

If Belmont cannot pay back this loan, taxpayers will be on the hook. We urge the Legislature to reject this deal.

Full Funding for the Authorities Budget Office

Last year, for the first time in nearly a decade, the state increased the appropriation for the Authorities Budget Office, from $2.05 to $2.859 million. The Governor has proposed $2.859 million this year as well. We strongly support this increase, but the state needs to go further and fully fund 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 594 public authorities.

Thank you for your consideration. If you have any questions, please contact Elizabeth Marcello, Ph.D., Senior Research Analyst, at elizabeth@reinventalbany.org.