Testimony to Senate Oversight Hearing on Economic Impacts of Tax Incentive Programs Relating to Economic Development and the PFM Report

November 20, 2024

Good morning Senators. Thank you for having me and thank you all for your efforts to reform economic development spending, including commissioning the PFM Group report on the Economic Impact of Tax Incentive Programs. I am John Kaehny, Executive Director of Reinvent Albany. We work for more transparent, accountable New York government and have been providing testimony to the Legislature on corporate subsidies and economic development boondoggles for over a decade.

Reinvent Albany was not founded to fight corporate subsidies, but the $11 billion New York State and local taxpayers' waste on "economic development" handouts have been so utterly debunked by independent analysts and are so obviously wasteful, economically irrational, and purely political that it is hard for anyone serious about making New York government more accountable to ignore them.

Today, Reinvent Albany is here to ask you to do four things:

1. Get the PFM Group, or another firm retained by DOF, to answer the "but-for test" question asked in (d) of Section JJJ, page 69 of S8008c of the FY 2023 budget. Here, the law asks the Department of Tax and Finance's consultant (PFM) to determine "*(d) whether similar job creation or private investment would have occurred without the existence of a state tax incentive.*" PFM simply did not answer this question in their report, but without answering this question – or seriously attempting to – it is hard to establish the real cost-benefit of these subsidies. Instead of answering the "but-for" question, PFM assumed all new and retained jobs are due to the state subsidy, which vastly overstates the benefits of the subsidies.
2. Support legislation redefining reimbursable tax credits as on-budget expenditures, and at a minimum, require the budget to disclose and enumerate where reimbursable tax credits are subtracted from revenue accounts.
3. Once again pass the bill that decouples New York State's tax code from existing federal Opportunity Zone tax breaks (S543 of 2023) and amend it to permanently

decouple New York from future potential extensions and expansions of Opportunity Zones being discussed by the next presidential administration.

4. Pass Senator Ryan's bill which prevents local Industrial Development Agencies from abating property taxes that would otherwise go to public schools (S89 of 2023).

For anyone who is not being paid by the businesses feeding at New York's $11 billion corporate subsidy trough, it's weird to land on Planet Albany and hear from the industry how seemingly every job in the state exists because of government subsidies. On Planet Real World, experts – not paid by subsidized businesses – have spent decades crunching through mountains of data and concluded that subsidies are a very inefficient form of public investment – AKA waste of money. In 2022, we published a greatest hits report summarizing twenty major national studies. Here in New York and nationally, research on corporate subsidies is skyrocketing, spurred by massive increases in economic development spending. New research and new data confirm in more detail what has long been known. In 2013, economists Donald Boyd and Marilyn Rubin were hired by the Governor's Commission on Tax Reform and given extensive help by the NYS Department of Tax and Finance. Rubin and Boyd wrote:

> *There is no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives.*

That remains true, and the PFM Group's findings are completely consistent with the overwhelming body of evidence showing that corporate subsidies are a bad investment of public funds.

Transparency Matters

Thanks to transparency measures championed by the Senators here, more and more government data must be published, which would make possible more fact-based assessments of economic development spending. Just yesterday, Reinvent Albany published an analysis of Empire State Development data showing that in the first two quarters of 2024, New York taxpayers provided subsidies in the form of reimbursable tax credits worth $75,000 for the equivalent of each full-time film and TV production job – up from $67,000 in Q4 2022. The Governor and Legislature approved film and TV subsidies totalling $7.7 billion in early 2023 ($700 million a year x 11 years, 2024 to 2034 inclusive).

Reimbursable Tax Credits Are Not Accounted for in the State Budget or Financial Plans

Reimbursable film/TV production tax credits are payments made by the state to film/TV producers for 30% of their eligible production costs. They are NOT refunds for excessive withholding taxes, nor are they tax breaks, which are reductions in the portion of business earnings subject to taxes. For the purpose of a reimbursable tax credit, it does not matter if a film or TV show earns $1 or $1 billion dollars. Yet, bizarrely, film and TV reimbursable tax credits – and some other tax credits – are treated the same as tax refunds for over-withholding and are not accounted for in the state budget or financial plan.

$75,000 is an incredible amount of taxpayer funds to spend on a single film/TV job that produces no public benefit goods or services – it's just a job. If that $75,000 was spent on a construction job, the public would get both the job and cleaner water, smoother roads, newer bridges, better transit, or a more energy efficient power grid.

Reinvent Albany's Top Takeaways from the NYS Tax Finance/PFM Report

1. Even assuming every film/TV job exists only because of subsidies, PFM found the Film/TV Production Tax Credit has been a monumental boondoggle, with a five-year net cost to NY taxpayers of $2 billion. From 2018 to 2022, the state film/TV tax giveaway cost state taxpayers $3 billion and resulted in about $1 billion in total state tax revenue from all induced economic activity. For every $1 in NYS subsidies, the state got back $0.31 in taxes, which again, is probably far too high an estimate since it assumes all film jobs resulted from the state subsidy (**Table 15, Page 48**).

2. **New York State will be completely guessing how many jobs are created until it finds a way to answer the "but-for test" using a reasonable methodology.** It is dishonest and defies common sense for the state or its consultants to assume that every job at a company getting subsidies is the result of those subsidies.

3. **It is important for the state to evaluate programs as independently and objectively as possible.** In some cases, that will mean hiring an independent consultant. While PFM didn't answer one crucial question, the PFM report contains a great deal of valuable data useful for future analysis of tax expenditures.

4. **Excelsior job credits could still be completely ineffective – and probably are. PFM's job assumption is totally unfounded – the best available evidence is somewhere between 2% and 25% of business siting decisions are made based on government subsidies.** Economist Tim Bartik at the Upjohn Institute in Michigan is the acknowledged top expert on job location and subsidies in the United States. His 2018 metaanalysis of 30 studies is probably the single most important analysis on how government subsidies affect business location decisions. Bartik concludes that the average incentive package might decide between 2 and 25 percent of business location/expansion/retention decisions, which means that for at least 75 percent of firms receiving subsidies, the firm would have made a similar decision to locate, expand, or remain in a place without the subsidy. These findings are consistent with other studies examining the effects of state and local business taxes, as well as studies examining the impacts of business subsidies in foreign countries. Excelsior compares well to film/TV credits because the credits are capped at a much lower subsidy per job, yet PFM Group still assumes they are responsible for creating all new jobs and retaining all existing jobs. Using Bartik's analysis, it is reasonable to assume that 25% of Excelsior jobs are due to Excelsior, not 100%.

Thank you for your consideration.