



Testimony of Reinvent Albany

Senate Finance Committee on the effectiveness of business subsidies and tax incentives in meeting New York's economic development goals

Albany, New York
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Thank you Senator Krueger and your Senate colleagues for holding this hearing and inviting us and an impressive group of independent experts including Tim Bartik, Marilyn Marks Rubin and Heywood Sanders.

Reinvent Albany works for 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 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 \$10 billion in subsidies New York State and local governments gift 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 is totally flawed and unsupportable. In a nutshell, subsidies amount to taxpayers paying businesses to create jobs, instead of paying them to provide goods and services like COVID-19 tests and vaccinations or replacing old water pipes.

Unfortunately, the public gets little from its investment if a business fails, relocates or cuts jobs – which is normal business behavior 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, 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 NY State 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, Joe Percocco. And that's the tip of the iceberg. Our guess is that local IDAs and IDCs probably have the highest corruption risk of any type of government in New York. They are beset by cronyism, 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 2017, New York spent \$11.8 billion subsidizing more \$50-million-plus “megadeals” than any other state. (NY is half as big as California.)

Sadly, New York government seems perversely attracted to subsidizing the types of mega-project subsidies 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. Just last week, Samsung announced it's putting a new chip fab near Austin Texas, despite a \$1.9 billion New York State subsidy offer that was made in complete secrecy.
- *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. Austin, Texas has no NFL, NBA, MLB or NHL team, is a center of the U.S. tech economy and has grown fivefold since Buffalo got the Bills in 1960. The Buffalo metro area population has shrunk about 20% since the Bills came. The Bills are a

great NFL team, and I hope they win the Superbowl. 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.

- *Convention Centers*: Professor Heywood Sanders, author of *Convention Center Follies*, is the top independent expert on convention center economics. Please listen to him.
- Poorly defined and opaque *public-private partnerships* are often a way to disguise big subsidies and shift risk onto the taxpayer. Reinvent Albany is extremely concerned about the new *Penn Station development project*. We have asked the NYC Independent Budget Office to put a price on the millions in NYC property taxes the State will potentially take away from the city. We are troubled that this deal is a backdoor way to provide massive public subsidies to Vornado using a convoluted scheme in which Vornado pays the state artificially low property taxes through PILOTS which are used to pay back bonds to fund Penn Station renovations. Should the development not occur as planned, the state instead would be paying for those bonds, meaning that not only could there be a loss in city tax revenue, but added costs to the state budget as well. We need look no further than nearby Hudson Yards to see that this type of financing scheme for public transportation projects carries large risks for the *public* side of these partners, and less so the private side.

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. We support all of the transparency and accountability measures proposed by the Citizens Budget Commission and urge the legislature to do the following:

1. **Legislature do no harm.** Create no new tax abatement programs and do not give the Governor, ESD or localities a blank check like Buffalo Billions. Freeze or reduce the total tax abatements and direct subsidies provided by the state.
2. **This session, pass the “Database of Deals” bill sponsored by Senator Comrie and Assemblymember Wallace (S5711/S8325).** This bill was crafted by legislative central staff and watchdog groups in 2016 and has been jammed by political opposition from subsidized businesses and their lobbyists who do not want the public to see how state subsidy programs compare to each other or to other forms of public investment. The current ESD “[database of](#)

[economic incentives](#)” is a nod in the right direction, but this bill is far more comprehensive and as a law cannot be shut down by the executive.

3. **Ensure the Database of Deals bill includes a uniform definition of “job” that applies to all state subsidy programs.** Without a uniform definition of “job” it is impossible to create an apples to apples cost per job that allows different subsidy programs and deals to be compared with each other.
4. **This session, pass the bill restoring most if not all of the State Comptroller’s “pre-audit” power to review state contracts (S6809 (Reichlin-Melnick / A7925 (Zebrowski)).**
5. **Pass legislation banning public officials or public advisory groups from signing Non Disclosure Agreements related to subsidy and economic development deals (S1196 (Gianaris)).**
6. **Pass legislation requiring all information given to public advisory groups of economic development projects be published online.**
7. **Require all mega-subsidy deals under consideration to publish a robust financial analysis that provides detailed employment and risk projections.**
8. **Freeze all state mega-subsidy deals, including the Penn Station Vornado deal until the extent of the subsidy to Vornado and potential loss of NYC tax revenue is made public.**
9. **End state subsidies for chip fabs and high tech manufacturing.** The cost per job created is incredibly high and fabs require huge infusions of capital and retooling every three to five years. Once a fab is created it has the state over a political barrel and can keep squeezing taxpayers for subsidies or threaten to close or relocate.
10. **End state subsidies for stadiums, arenas and convention centers.** There is massive evidence that these facilities provide few jobs or sustained tax revenue.