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Testimony to the New York State Senate Committees on Finance, Commerce, Economic Development and Small Business, and Investigations and Governmental Operations: Effectiveness of business subsidies and tax incentives in meeting New York State's economic development goals

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Thank you very much to Senator Krueger, Senator Kaplan, Senator Skoufis, members of the Senate, and legislative staff, for inviting NFIB to testify today.

NFIB is a member-driven organization representing close to 300,000 small businesses across this country and nearly 11,000 in New York State.

NFIB members are the businesses that define our neighborhoods and strengthen our communities with character and value: local hardware stores, independent restaurants, florists, barbers, dry cleaners, convenience stores, farmers, roofers, landscapers, mechanics, and fitness and retail boutiques. These are NFIB members.

There are close to 500,000 small businesses with employees in New York. These businesses employ half the state's private-sector workforce, nearly 4 million New Yorkers, and their production accounts for nearly half of the state's GDP. A strong, vibrant small business eco system supports local tax bases, governments, and schools. Sixty-seven cents of every dollar spent at a local small business is reinvested into the community. Small businesses are the engines that drive the state and local economy, and New York State economic development policies should start on the Main Streets and commercial corridors that generate local jobs, local revenues, and community stability.

As you all know, small businesses continue to face truly unprecedented challenges with no end in sight. During the height of the COVID-19 pandemic, tens of thousands of small businesses were deemed non-essential and forced to close for months to protect public health. This led to depressed consumer demand, non-existent or stagnant sales, increased costs, and significant debt. Nearly two years later, many small businesses never made up the losses incurred while now facing severe labor shortages, supply chain disruptions, inflation, increased labor costs, and higher UI tax bills.

These challenges have led to a continued pessimism about future economic conditions. In NFIB's latest COVID-19 Small Business Survey, 73 percent of small businesses have not seen their sales volume return to pre-COVID levels and 59 percent anticipate that their local community will not return to pre-crisis level of economic activity until sometime in the second half of 2022 or later.[1] NFIB's Small Business Economic Trends data indicates that 22 percent of small businesses reported inflation was their single most important problem, a 20-point increase from the beginning of 2021 and the highest level since 1981. Additionally, 49 percent of owners reported job openings that could not be filled, and 48 percent of owners reported raising compensation, a 48-year record high reading.[2] The labor shortage has led to 51 percent of small businesses suffering a moderate to significant loss of sales opportunities, 79 percent offering higher wages, 39 percent adjusting operation hours, and 91 percent of owners working more hours. Nearly half (48 percent) of small businesses report that supply chain shortages are having a significant impact on their business and 90 percent anticipate that the disruptions will continue for 5 months or more. Ultimately, 69 percent of small business owners have increased the price of their goods or services due to these factors. The current environment is unsustainable for the state's economy, local communities, and our Main Streets which bring life and vibrancy to our neighborhoods.

While small businesses continue to battle unparalleled and unique challenges due to the pandemic and economic trials, challenges existed before COVID. In NFIB's 2020 Problems and Priorities report, New York small business owners ranked 75 potential business problems, with the top ten problems relating to taxes, regulations, and the cost of insurance. New York's small business owners identified property taxes as the second most burdensome problem, followed by state business income taxes as the third most burdensome problem – both higher than the national average.[3] Other critical problems higher than the national average include, the cost and availability of liability insurance (7th), workers' compensation (11th), government regulations (4th), and state/local paperwork (8th). To put it simply, running a business in New York State is extremely difficult and unnecessarily costly, and the COVID-19 pandemic only exacerbated that reality.

New York's small businesses are struggling mightily, but they have been for years. As these committees consider economic development, the livelihood and success of small

[1] "Covid-19 Small Business Survey (20)." NFIB Research Center, October 2021.

https://assets.nfib.com/nfibcom/Covid-19-20-Survey-FINAL.pdf.

[2]"Small Business Economic Trends." NFIB Research Center, December 2021. https://assets.nfib.com/nfibcom/SBET-Dec-2021.pdf.

[3] NFIB Research Center, 2020 Small Business Problems & Priorities, https://assets.nfib.com/nfibcom/NFIB Problems-and-Priorities-2020.pdf

businesses must be acknowledged and considered. While certain economic development initiatives are helpful to downtown revitalization efforts, certain industries, or specific regions, for far too long New York State has used economic development spending to pick winners and losers.

New York State, county, and local governments spend more than $9 billion each year on economic development that often does not directly benefit Main Street or native businesses. As an example, the film production tax credit cost New York State $465 million in 2020 alone – a massive amount of money that goes to Hollywood film production companies rather than small businesses right here in our neighborhoods. New York has poured billions into certain industries, sectors, or regions with little transparency or oversight. Programs, such as START-UP NY, have proven to be a failure. Investigative reporting, research, and audits have shown that projects, such as the $750 million state built and -equipped factory for SolarCity and the $14 million Central New York Film Hub, have not generated the jobs or tax revenue promised. The effectiveness of these initiatives has and should be subject to scrutiny and forensic examination.

Moving forward, the State must ensure that the billions spent on economic development each year are benefitting local, independent businesses. Most of the existing economic development programs available through New York State are not geared towards the small businesses that already occupy our Main Streets. Tax credits, such as the Life Sciences Research and Development Tax Credit Program, the Commercial Tax Credit Program, or the Excelsior Jobs Program, are specific to life sciences companies, scientific research and development firms, production companies, software development, or businesses with more than 100 employees. A majority of economic development programs available to small, family-owned, independent businesses are loan programs, which are useful to finance growth or expansion but do not offer the same benefits or advantages as tax credits, grants, or tax-free incentives.

The established programs that have been useful and accessible to small businesses include, but are not limited to, the Brownfield Cleanup Program, Historic Preservation Tax Credits, and PILOTs offered through IDAs. In 2020, the legislature passed legislation allowing IDAs to offer COVID-related loans and grants to small businesses. Nearly 1,500 small businesses (businesses with less than 50 employees) received grants through their local IDAs to acquire PPE. This was a useful and helpful grant program during the height of the pandemic; however, why not give IDAs the ability to offer grants to small businesses unrelated to COVID or acquiring PPE? A grant of up to $10,000 could help an independent restaurant build an outdoor patio, assist the family-owned building material retailer to upgrade its software to accept online orders, or aid the local bakery purchase new equipment that is both energy efficient and allows for increased production. Grants and tax credits should be available to a variety of small businesses for an array of reasons.

To be clear, NFIB does not suggest the complete elimination of economic development incentive programs, nor does it suggest that state-based incentives be solely judged by job creation. While transparency and scrutiny are important, there also needs to be flexibility. Successful economic development initiatives can also protect existing jobs and businesses, maintain vibrant communities and Main Streets, invest in critical infrastructure such as broadband, and address blight. But there's no doubt New York State's existing economic development strategy needs significant improvement. There must be a shift in the state's priorities that no longer subsidizes big businesses and industries at the expense of small businesses. Out-of-state transplants should not be favored with taxpayer incentives to compete with homegrown, local employers. Any business owner will tell you it's far more cost-effective to keep an existing customer than it is to attract new ones. New York State's economic development policy should reflect this simple truth: creating an environment that invites investment, growth, and the sustained prosperity of existing employers will always provide more economic and social benefits than spending millions of dollars to attract new ones.

Generating a thriving economy doesn't require billions in subsidies and headline-grabbing projects, and instead relies on creating a better business environment with lower taxes, fewer regulations, and more affordable insurance. New York State's poor business climate is well-known, and New York State's overall tax burden is the second-worst in the country. The state's property tax is the third-highest, sales tax is the eighth-highest, and individual taxes are the highest in the nation.[4] High taxes have, in part, lead to New York's population falling by over 300,000 in 2020 (the most significant decline of any state at a loss of 1.9%), while low-tax states saw population increases.[5]Small businesses and county and local governments have long called for mandate relief to help lower property taxes, and NFIB has repeatedly requested consideration of modest, targeted small business tax cuts. More recently, NFIB has appealed to the State to join 32 other states in using unspent federal ARPA funds to restore New York's depleted UI Trust Fund and alleviate the astronomical UI taxes on small businesses.

Furthermore, regulatory reform is essential to ease the burden on independent businesses. When New York State passes legislation and state agencies promulgate rules, there is virtually no communication about the new law and what is required of small businesses. The state's regulatory environment is oppressive, made worse by a lack of support and resources dedicated to small businesses and an emphasis on punitive revenue rather than compliance and assistance. The State must also address insurance affordability and lack of availability, which is caused, in part, by the onslaught of lawsuits against small businesses. New York State is one of the most overly litigious states in the nation and small businesses bear a higher share of the liability burden. The practice of passing legislation with a private right of action is unending, which unnecessarily costs small businesses and New Yorkers thousands of dollars each year. The current

[4]"2022 State Business Tax Climate Index." Tax Foundation, December 2021. https://taxfoundation.org/2022-state-business-tax-climate-index/.

[5]"New Vintage 2021 Population Estimates Available for the Nation, States and Puerto Rico." U.S. Census Bureau, December 2021. https://www.census.gov/newsroom/press-releases/2021/2021-population estimates.html.

environment lines the pockets of the plaintiffs' attorneys bar at the expense of small, independent, and often family-owned, businesses.

Moving forward, New York State's economic development initiatives and strategy should not abandon successful public-private partnerships, nor should it completely eliminate economic development programs and spending; however, economic development tax incentives and grants should be available to the state's small business owners, and the state should take steps to improve its overall business climate. A prosperous state is only possible if Main Street is alive and well which requires disciplined and deliberate economic policy, transparency and accountability, eliminating waste, and abandoning picking winners and losers.

Supporting our family-owned, often generational, and independent businesses will help small businesses recover from the devastating pandemic while spurring investment in equipment and jobs and expansion of business operations – translating into additional tax revenue and money circulating in the local economy. Small businesses are a critical segment of New York's economy but seem to have been largely left behind in New York's economic development practices.

Thank you, again, for inviting NFIB to testify today and for your time and attention.