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

February 23, 2021

My name is Tom Speaker, and I am a Policy Analyst at Reinvent Albany. Reinvent Albany advocates for transparent, accountable New York government. Thank you for the opportunity to testify at this hearing.

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

1. **Hold an oversight hearing on business subsidies featuring independent experts.**
2. **Establish a Database of Deals.**
3. **Pass the Opportunity Zone Tax Break Elimination Act in the budget.**
4. **End $330M a year in oil and gas subsidies by passing S4816 (Krueger) in the budget.**
5. **Increase the budget of the Authorities Budget Office (ABO), a crucial subsidy watchdog, to over $3 million.**
6. **Reduce the number of Industrial Development Agencies (IDAs) and Local Development Corporations (LDCs) and make them more accountable.**

Business subsidies are a waste of taxpayer money that could be spent on core services.

A huge body of research by independent academics and researchers has found that corporate subsidies waste taxpayer money, are vulnerable to pay-to-play corruption and lack transparency and accountability.

- In 2018, Tim Bartik, an internationally prominent labor economist at the W.E. Upjohn Institute collated 30 studies that collectively show business subsidies sway business decisions at best 25 percent of the time.

- A 2020 evaluation of $30 billion in discretionary business subsidies across 50 states by Cailin Slattery (Columbia University) and Owen Zidar (Princeton) found that 30% of all firms opening offices in new locations with over 1,000 employees receive firm-specific subsidies while less than 0.2% of firms under 250 employees do.

- A report written for the 2013 Governor's New York State Tax Reform and Fairness Commission by Marilyn M. Rubin (John Jay College) and Donald J. Boyd (Rockefeller Institute of Government) found that 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. Business tax incentives violate principles of good tax policy and tenets of good budgeting."

New York State has passed laws requiring New York City to provide gargantuan subsidies – 421-a, ICAP, ICIP (expired), and REAP – to the real estate industry. These subsidies are a ridiculously expensive way to create affordable housing or bolster the economy, and take from City funds that could be used for core services. Our review of NYC tax expenditures for an upcoming report found that, after adjusting for inflation, these tax breaks are costing the city four times more per capita than thirty years ago after adjusting for inflation. The Community Service Society's study of the 421-a tax break found that only 14 cents of every dollar spent through the subsidy goes to "affordable" housing. In 1990, 421-a cost $391 million. The current cost is about $1.5 billion a year.

Hold an oversight hearing on business subsidies featuring independent experts.

The lack of efficacy of business subsidies has been detailed in many research reports, and we believe that a hearing would help cast light on the amount being spent on the subsidies, the lack of transparency, and the poor return on public investment. We call again for the legislature to hold an oversight hearing specifically about the effectiveness of business subsidies in New York state and to invite independent experts from across the country, such as Nate Jensen and Heywood Sanders from the University of Texas and Tim Bartik from the Upjohn Institute. There is robust independent scholarship about tax abatements, subsidies for convention centers and stadiums and other so-called "economic development" expenditures. New York should draw on that expertise instead of hearing mainly from hired guns who are paid by industries getting billions in taxpayer funds.

Establish a Database of Deals.

New York State gives billions of tax dollars a year to businesses to create jobs. Local governments give billions more. Stunningly, how much each business gets and how many jobs they create and retain is not disclosed to the public and may not be known by the state.

Since 2015, watchdog groups have called for a Database of Deals that reveals exactly how much each business is getting and what the people of New York are getting in return. The public started asking for the Database of Deals following huge scandals that led to the conviction of high-level state economic development officials.

Two years after Governor Cuomo directed Empire State Development to create a database, there is still no database. This is basic transparency. It is 2021 – enough waiting and excuses. The legislature should reintroduce S2815 (Comrie)/A2334 (Schimminger) and require the database in law.

Pass the Opportunity Zone Tax Break Elimination Act in the budget.

Subsidies that start small often balloon into incredible costs, and this is why the legislature must move to repeal New York's Opportunity Zone tax break by passing S1195 (Gianaris) in the budget (Assemblymember Jeffrey Dinowitz's same-as will be reintroduced soon). The bill has support from nineteen organizations and six unions, including 1199SEIU, Communications Workers of America District 1, and the New York State Teachers Union. Citizens Budget Commission estimated that the Opportunity Zone tax break is costing New York City and State up to $31m and $63m respectively each year, with these numbers expected to rise to $140m and $284m in 2029.

Under the program, investors receive a tax break by investing their capital gains in so-called "Opportunity Zones," which are high-poverty or low-income areas designated by states (Empire State Development designated New York's OZs without holding any public hearings). Investors' capital gains taxes are deferred if they invest for up to seven years, and excluded if they invest for ten years. Investors also do not have to pay taxes on any gains that result from their investments.

Though supposedly intended to revitalize communities, Opportunity Zones are in fact a massive giveaway to real estate and wealthy investors that will cost New York billions. Little research has been conducted on the program, but the one major study conducted to date found that the program's key beneficiary is high-end real estate, not communities. Extensive research on Opportunity Zones' forerunner, Enterprise Zones, shows that tax breaks for investments in high-poverty areas does little other than hurt tax revenue.

Extensive coverage in the New York Times, Wall Street Journal and numerous outlets show how Opportunity Zones have also benefited Trump cronies and luxury developments:

> *Former Gov. Chris Christie of New Jersey; Richard LeFrak, a New York real estate titan who is close to the president; Anthony Scaramucci, a former White House aide who recently had a falling out with Mr. Trump; and the family of Jared Kushner, Mr. Trump's son-in-law and senior adviser, all are looking to profit from what is shaping up to be a once-in-a-generation bonanza for elite investors.*
> -The New York Times, August 31, 2019

> *In Florida, a Fort Lauderdale developer broke ground this spring on a $40 million apartment building located in an opportunity zone. Monthly rents are expected to go for as much as $1,900. "A lot of these people who are going to live there have a high income," the developer confessed to a local business publication. The complex will feature amenities including a dog park, a fitness center with a yoga and cycling studio, a full-time concierge and a fourth-floor pool with cabanas.*
> -The Wall Street Journal, September 13, 2019

> *Kushner and his wife, Ivanka Trump, pushed for the Opportunity Zone tax breaks to be included in Trump's 2017 tax overhaul. The breaks offer investors big cuts in capital gains taxes if they put money into businesses and buildings in 8,700 poor, struggling neighborhoods across the country that otherwise might not attract the money. Cadre has said it plans to invest heavily in those neighborhoods, though it is unclear just how much it has done so. Kushner also has stakes in more than a dozen properties in Opportunity Zones owned by his family firm, Kushner Cos. It is not clear if the company has taken advantage of the breaks.*
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> -Associated Press, March 3, 2020

The legislature must end this boondoggle and pass the Opportunity Zone Tax Break Elimination Act. OZs have likely already cost New York hundreds of millions, a number certain to reach the billions if the state waits any longer. Every dollar that goes to OZs is a dollar that our struggling public services lose.

End $330M a year in oil and gas subsidies by passing S4816 (Krueger) in the budget.

Reinvent Albany urges the legislature to pass in the budget S4816 (Krueger), which would end some state subsidies for airline fuel ($118M), liquid petroleum gases ($57.6M) and fracked gas infrastructure ($4M). Eliminating the subsidies could collectively save the state $330M a year – more than the state projects to bring in by legalizing marijuana.

S4816 is only the first step – to eliminate fossil fuel subsidies the state must go much further. Beyond the subsidies addressed in the bill, there are hundreds of millions more going to expenses that harm the environment. As we have noted, New York is currently trying to reduce fossil fuel pollution while subsidizing the very companies that contribute to global warming. It makes absolutely no sense to both tax and subsidize fossil fuels.

Increase the budget of the Authorities Budget Office (ABO), a crucial subsidy watchdog, to over $3 million.

The legislature must increase the ABO's budget to $3.105 million, as we and other watchdogs requested back in 2018. The ABO oversees 585 state and local authorities that together hold $248 billion in public debt, but currently the Office has only 11 employees as of last year.

This skeleton crew is far from what was imagined when the ABO was first established. Renewing the Office in 2009, the legislature said it "can be expected that [the ABO] will require legal and investigatory staff, as well as additional analytical and compliance personnel in order to meet these new duties. It is estimated, based on the provisions of this bill, that these resource needs for the office could total an additional $2.7 million on an annualized basis."[1] That $2.7 million in 2009 dollars was $3.105 after adjusting for inflation in 2018. The ABO is funded by a small portion of the assessment on authorities, so changes to its budget do not impact the General Fund.

Reduce the number of Industrial Development Agencies (IDAs) and Local Development Corporations (LDCs) and make them more accountable.

As the ABO has noted, authorities spend massive amounts of public funds, and there is little transparency on whether or not IDA and LDC economic development subsidies help communities. Most of the billions being spent are taking place outside of the state budget process. We view this as a major corruption risk and waste of public funds.

[1] Bill memo of Chapter 505 of the Laws of 2009.

IDAs are notorious for their lack of transparency, with many not holding public meetings or responding to inquiries from public officials. IDA members themselves are not elected; they are usually nominated on the basis of their political connections. IDAs often face controversy for taking away funds from schools to subsidize projects – in Ulster County, for example, the Kingston IDA took $16 million from schools for a mixed-use shopping center, much of which went to a parking garage.

We support the IDA/LDC reform legislation recommended in the State Senate Investigations and Governmental Operations Committee's 2019 report and believe the following are especially important:

- Permit County Comptrollers to audit IDAs located within their municipality (currently only the ABO and the State Comptroller have the authority to examine the operations and finances of IDAs).
- Require public authorities to respond to ABO recommendations, as agencies are required to do for audits by the State Comptroller.
- Prohibit IDAs from issuing financial assistance to projects that have already started development (S4668 of last year).
- Require retention applications from companies that threaten relocation to supply incentive offer letters, if any, from other states.

Thank you again for the opportunity to testify. Please contact Tom Speaker at tom [at] reinventalbany.org should you have any questions.