



## **Testimony before the Joint Fiscal Committees SFY 2022-23 Executive Budget Economic Development Budget Hearing**

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I thank the chairs and members of the respective committees for the opportunity to testify on the 2022-23 New York State Executive Budget. New Yorkers for Fiscal Fairness is an advocacy organization, founded in 1996, to promote fair and equitable state budgets for all New Yorkers.

New York State and its local governments currently spend in the neighborhood of \$10 billion annually on a broad array of economic development programs throughout the state. There are dozens of different programs that provide a myriad of benefits, from cash grants to tax exemptions, tax credits (including many that are refundable and therefore paid in cash), and tax-exempt bonds. The vast majority of these benefits go to big businesses in the name of job creation and economic growth, but the results are very far from clear.

It's time for New York to begin to redefine "economic development" as improving the quality of life for regular New Yorkers and challenge traditional tax abatement and corporate subsidy style economic stimulus. The state and local governments need to realize true economic development is about investments in public goods like early childhood education, childcare, K-12 and higher education, the public workforce, homecare and affordable housings.

### **Tax Incentives – A Failed Approach**

The state's heavy reliance on tax incentives as an economic development strategy is a misguided approach. After many decades, there is little to show beyond a trail of political scandals. A detailed study of New York's business tax credits, prepared in 2013 by economists Donald Boyd and Marilyn Rubin for the Tax Reform Commission empaneled by Governor Cuomo, firmly stated 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 to the states above and beyond the level that would have been attained absent the incentives." The governor and the legislature should pay attention to the findings of this thorough analysis.

At the same time that job-creation results have been meager, political scandals have been in abundance, centering around bid rigging of state contracts, transparency and accountability—issues that have not been substantively addressed, despite repeated media coverage and more than a few indictments. Lack of accountability masks the failings of these development programs.

A report from the independent W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich., analyzed tax incentives for economic development during 2015 and concluded that New York's were the most-expensive — and second-least effective — nationwide.

The state's economic development landscape is littered with bad deals, empty buildings and hundreds of millions in equipment no one will use. Here are a few examples:

- The Central New York Film Hub outside Syracuse, which cost \$15 million to build but was [sold for just \\$1](#) — despite Governor Cuomo boasting in 2014, “Who would have ever figured: Hollywood comes to Onondaga, right?”
- A [\\$90 million factory that taxpayers built for the Soraa LED lighting company](#), which walked away from the deal with no penalty. The state then committed up to \$15 million more so NexGen Power Systems, a semiconductor company, would retrofit and lease the plant, also outside Syracuse.
- New York state has begun [selling off more than \\$200 million in manufacturing equipment](#) that it bought for planned Tesla and Panasonic solar manufacturing facilities in Buffalo.
- Amazon Warehouse – [Clay, NY \\$70 million](#). This is just the tip of the Amazon iceberg as they have received massive subsidies to locate warehouses across the state and are also taking full advantage of the 2017 federal tax law changes by siting their warehouses in [Opportunity Zones](#).
- PlugPower - [\\$4 million per job - \\$118 million in local tax breaks](#)

## **Corruption and Conflicts of Interest**

Economic development projects have been at the center of numerous “pay-to-play” schemes. One of the most scandalous involved the conviction of Governor Cuomo's former top aide, Joseph Percoco, on three corruption charges for soliciting and accepting more than \$300,000 in bribes from executives from two companies receiving state funding, including a \$35,000 bribe from COR Development.<sup>1</sup> COR Development is a Syracuse company that received a \$1.5 million ESD grant for infrastructure improvements. In exchange for a \$35,000 bribe, Percoco convinced the state to drop a union requirement.

Similarly, a federal jury convicted Alain Kaloyeros, former president of the State University of New York Polytechnic Institute, of a bid-rigging scheme that involved hundreds of millions of dollars. The ESD-administered projects were part of the governor's “Buffalo Billion” revitalization initiative and often went to the governor's campaign donors. Questions have also been raised about “silver-bullet” projects that receive economic development funds without clear criteria. More than a billion dollars was spent on projects such as a Tesla factory, for example, before any jobs were created.

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<sup>1</sup> Knauss, Tim. "NY Corruption Trial: Feds Say Email Trail Lays out Crime in Syracuse." Syracuse.com. January 22, 2018

State Assembly members have criticized the REDC structure for the lack of transparency in decision makers' financial investments, which may result in conflicts of interest. Currently, REDC council members must produce "statements of interest," but these are not public records. During a January 2018 hearing on economic development, the state lawmakers pressed to make REDC members subject to the same financial disclosure requirements as thousands of state workers.<sup>2</sup> Former Governor Cuomo and former ESD president and CEO, Howard Zemsky, pushed back against that proposal. Zemsky asserted, "These folks don't have any statutory responsibility. They can't actually enact anything based on their decision-making."<sup>3</sup> Proponents of the disclosure requirement claim that the public should have the right to see if the projects being scored by REDC council members have connections to those making funding recommendations.

## **Long Past Time for Needed Reforms**

### **Database of Deals: A Solution to Address a Lack of Transparency and Accountability:**

For years many groups have proposed creating a single "Database of Deals," managed by ESD, for all state subsidies to businesses, including grants, loans, tax credits, tax-exempt financing, as well as discounted energy. In 2019, \$500,000 was included in an appropriation bill to create this database but sadly there was no accompanying Article VII language clearly spelling out how the database would be constructed and what information would be included.

Businesses often receive subsidies from multiple programs, but it is difficult for the public to tally the full cost to the state. We had hoped that this new portal would provide a clear picture of the state's economic development projects, as well as enhance the state's ability to track the return on its investments. Other states have moved forward on this front. It's time for New York State to finish what it promised.

**Senator Comrie and Assembly member Wallace's bill ([S5711/S8325](#))** provides a model for statutory change to create a Database of Deals. The language in the 2019 appropriations bill did not contain any requirements for the design and functionality of the Database of Deals, nor did it specify tracking or publication of different types of jobs created or retained or the variety of business subsidies received.

Instead of the aforementioned Database of Deals, the state released a Database of Economic Incentives which sorely misses the mark. The DOEI does include useful elements—the name and location of recipients, size of planned awards, project status, and "jobs" commitments and accomplishments data. The DOEI also is user-friendly, allows easy downloads from the State's open data site, and provides user orientation materials.

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<sup>2</sup> Jain, Rahul, and Riley Edwards. An Assessment of Performance Reporting by Regional Economic Development Councils. Report. Citizens Budget Commission, [https://cbcny.org/sites/default/files/media/files/REPORT\\_REDC\\_11302015\\_0.pdf](https://cbcny.org/sites/default/files/media/files/REPORT_REDC_11302015_0.pdf)

<sup>3</sup> Precious, Tom. "Zemsky Says Regional Council Members' Finances 'not Public Records'." The Buffalo News. January 29, 2018. <http://buffalonews.com/2018/01/29/zemsky-says-regional-council-members-finances-not-subject-to-sunshine-law/>.

However, the DOEI is far from complete. It includes only data for projects beginning in 2018 and for projects managed directly by ESD, leaving out roughly half of annual NYS economic development spending and all local economic development spending. The DOEI also lacks summaries of the dozens of programs and initiatives through which funds are awarded, and primary source materials such as contracts and agreements made with the recipients. Basic variables such as the actual and planned timing of disbursements and job creation/retention targets for reporting year also are missing.

Critically, the DOEI fails to standardize the definition of a “job.” Absent this, there is no way to determine whether jobs created or retained are permanent or temporary, and full-time or part-time. Furthermore, there is no way to compare programs or evaluate whether they are cost-effective. The state must ensure that 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.

New Yorkers should have access to a Database of Deals that provides transparency and accountability for the dozens of business subsidy programs. This should be a companion to the programs’ own reporting requirements, which often are ignored. In a May 2017 [audit](#), NYS Comptroller DiNapoli found ESD failed to meet more than half of the reporting requirements for tax credit and job creation programs, including independent evaluations of the efficacy of economic development programs, general overviews, and program-specific reports.

### **IDA’s Need to Stop Giving Away School District Revenue**

According to an analysis by Good Jobs First, school districts in upstate New York (total excludes NYC) lost \$406 million in tax revenue to IDA projects/PILOTS in 2019 (and growing). We know that 87 school districts lost between \$1 million and \$10 million in FY 2019; and three of these — Peekskill, New Rochelle, and Rensselaer — lost over \$10 million. All are relatively poor, and two have large shares of Black and Latinx students.

**Ban IDAs from abating school district tax dollars or at a minimum mandate that school districts be consulted and have final say in implementing tax abatements.** The state needs to recognize the symbiotic relationship that schools and cities have. Eliminating the ability of the local IDA to abate school taxes or providing school districts with the final say on tax abatements would give them unilateral authority over their own property tax base, instead of reallocating authority to an unelected, undemocratic institution like the IDA.

**Change the statutory language to mandate that community services have representation on IDA boards.** As IDA decisions have ripple effects throughout the community, from impacting housing prices to affecting district revenues, the local school districts, unions, neighborhood and other community groups should be included in decisions to abate taxes for new development. Thus, there must be at least one school representative on IDA boards to represent their interests and present

potential drawbacks and actions to make sure that economic development policies benefit all institutions within a community.

**Empower the State Comptroller to Review All State Contracts:** New York State should pass the bill restoring most if not all of the State Comptroller's "pre-audit" power to review state contracts ([S6809 \(Reichlin-Melnick\)](#) / [A7925 \(Zebrowski\)](#)). Removal of these pre-audit powers led to Buffalo Billion bid-rigging scandal and literally invites corruption and waste. Comptroller audits help protect hundreds of billions in spending -- the Comptroller's office reviewed \$235 billion in contracts in 2020 alone, saving New York millions of dollars. Currently there is \$10 billion in the Executive Budget proposal not subject to Comptroller review ([see here](#)). This corruption risk needs to be addressed and the states duly designated and elected fiscal watchdog should be able to review all contracts to safeguard public funding.

**No More Non-Disclosure Agreements:** Pass legislation banning public officials or public advisory groups from signing Non-Disclosure Agreements related to subsidy and economic development deals ([S1196 \(Gianaris\)](#) A9092 (Solages)).

**Fix the Opportunity Zones Bill loophole:** [S6800 \(Gianaris\)/A8081 \(Dinowitz\)](#), closes a loophole in the legislation passed last year ending New York's tax break for federal Opportunity Zones. If it is not fixed, this loophole could cost New York billions within the next decade, with the benefits going to luxury real estate instead of the environment, infrastructure, or public schools. New York took a step forward last year by eliminating the five-year tax break, saving more than \$90 million annually over the next several years. Under the program, investors can receive a tax reduction on their realized capital gains after five years. After ten years, investors are exempted from paying taxes on capital gains from their new investments. This ten-year exemption is what was omitted from the budget bill. If it is not fixed, this loophole could cost New York billions within the next decade, with the benefits going to luxury real estate instead of the environment, infrastructure, or public schools.

**Claw backs:** The state should require mandatory claw backs for every single incentive offered, including instances where the state spends capital money on behalf of a prospective tenant, for broken promises on jobs, wages, relocation, etc.

**Support Economic Development programs that Work:** Smaller scale programs like the **Innovations Hot Spots Program** (small business incubators that share services and work closely with universities) make more sense than traditional mega-deals. There are also long-overlooked and underfunded programs that have a successful track record such as the [Entrepreneurial Assistance Program \(EAP\)](#) and the **Community Development Financial Institutions (CDFI) fund**. These two programs have been in operation for decades and are designed to provide training and technical assistance to women and people of color who want to start their own business (EAP) and provide the capital needed to create these small enterprises (CDFIs).

## **Redefining Economic Development:**

Rather than chasing smokestacks or throwing tax cuts at business, the state's economic development policy should be focused on smart investments that improve the local economic climate, with careful accounting of benefits to local communities. The goal must be overall economic growth, not the mere shifting of activity from one area or one state to another.

We must also accept the fact that what ultimately makes for the best business climate is investments in public schools and institutions of higher education, labor force development, childcare, homecare, transportation, parks, and other infrastructure that build a skilled labor force and attract business owners and workers based on quality of life. It is these fundamentals that will make the biggest difference in whether or not New York State is an attractive place for employers to locate and employees to live. What we typically call "economic development" is in the end marginal to what makes New York an attractive place to do business.

### **Child Care as economic development:**

In numerous surveys, businesses in New York have continued to suggest that childcare is one of the most pressing problems they face when trying to retain and recruit employees. In a 2020 [survey of 80 businesses](#) across the seven-county north country region, childcare was identified as a top priority by employers. They indicated this was a pre-COVID issue impeding recruitment efforts and affecting employee attendance, and that it was only exacerbated by the pandemic.

Businesses are not screaming out for subsidies but rather access to childcare. There are two bills proposed by Senator Brisport (S.6706/A.7582) and Senator Ramos (S7615) that try and tackle this long-standing problem. We strongly suggest that childcare subsidies be dramatically enhanced and that wages paid to childcare workers be increased through state subsidies. As evidenced by the facts below, it is undeniable that investing in early childhood education and childcare services has an immense return on investment when compared to other economic development programs.

Unlike most traditional economic development programs, investments in high-quality early childhood education can generate **up to \$7.30 per dollar invested**. Access to stable, high-quality child care also helps parents **improve their labor productivity** by increasing work hours, missing fewer work days and pursuing further education.

Research demonstrates that the entire community benefits as well as from investments in early childhood education. In fact, the availability of early childhood education programs attracts homebuyers and **increases property values by \$13 for every dollar** invested in local programs and reduces grade retention and is shown to **save school systems money** for K-12 education. Participants in high-quality early childhood education also show **long-term gains** in the form of lower rates of incarceration (46% reduction), lower rates of arrest for violent crimes (33% reduction) and a reduced likelihood of receiving government assistance (26% reduction).



## **Homecare as economic development:**

Another caregiver service that should be viewed as economic development is homecare. We need to create greater access to homecare for our family members who require these services. Rigorous academic studies have found that public funding to raise home care wages would require significant resources, but those costs would be surpassed by the resulting savings, tax revenues, and economic spillover effects. The net economic gain would total at least \$3.7 billion. Lifting wages would also help fill nearly 20,000 vacant home care positions each year and would create nearly 18,000 jobs in other industries by boosting local economic activity. These findings align with past studies on public investment in the care sector, which have found large effects on economic activity and on job creation both within and beyond care industries.

The “Fair Pay for Home Care Act,” ([S5374](#), [A6329](#)) would raise home care wages to 150% of the minimum wage. Research has found that raising annual home care wages would end New York’s massive home care shortage within the next five years — allowing older adults and disabled people to live and age safely at home. [[CUNY](#)] The Fair Pay for Home Care Act currently has bi-partisan support in the Assembly and the Senate, and Andrea Stewart-Cousins recently stated she plans to make home care funding a priority. [[Spectrum, 10/15/21](#)]

Currently, 42% of the state’s home care workers live in or near poverty. The Fair Pay for Home Care Act would lift over 200,000 home care workers out of poverty wages. [[PHI](#)] The bill will overwhelmingly improve existing jobs and create new jobs for women and people of color: currently, New York’s care sector is 91% female and 77% people of color. As the country and state wrestle with historic racial injustice, along with the disproportionate impact of COVID on communities of color, Fair Pay for Home Care is an investment in equity, and lifting up a historically underpaid workforce. [[PHI](#)]

As New York faces widespread unemployment, the Act would bring 200,000 new home care workers into the field over the next decade and additionally create 180,000 jobs in other sectors and industries via increased spending and economic activity. [[CUNY](#)]. The Act would pay for itself and generate billions for New York's state economy through new income and sales tax revenue, economic spillover, and reductions in Medicaid and social assistance. [[CUNY](#)]

## **SUNY/CUNY as economic development:**

<https://comptroller.nyc.gov/newsroom/comptroller-stringer-analysis-cuny-graduates-earn-combined-57-billion-annually-highlighting-cunys-significant-contributions-to-local-and-state-economies/>

According to a March 2021 report from the New York City Comptroller, tax dollars in CUNY are a wise investment:

- Nearly 80% of CUNY graduates stay in New York.
- CUNY graduates working in New York State earned a combined \$57 billion annually (\$67,000 on average) in 2019, \$28.6 billion more than students would have earned without a post-secondary degree.

- CUNY graduates working in New York State paid an estimated \$4.2 billion in state income taxes.
- CUNY graduates represent 10% of the private workforce in New York State.

In 2020 the Brookings Institution listed 12 CUNY campuses that provided its students with the [greatest upward mobility to the middle class](#).

Thank you for the opportunity to present this information to you today.