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February 26, 2025

New York State Joint Legislative Budget Hearing on Economic Development

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Thank you very much Senator Krueger, Assemblymember Pretlow, members of the Senate and Assembly, and legislative staff, for your consideration of NFIB's testimony.

NFIB is a member-driven organization representing more than 11,000 small businesses across 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, small retailers, dry cleaners, convenience stores, farmers, roofers, landscapers, mechanics, and fitness and retail boutiques. These are a sample of NFIB members.

There are close to 500,000 small businesses with employees in New York. These businesses employ 40 percent of the state's private-sector workforce, over 3 million New Yorkers, and their production accounts for nearly half of the state's GDP. A staggering 98 percent of New York's businesses have fewer than 100 employees. 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 also enrich their communities through financial support, in-kind contributions, and volunteerism. Ninety percent of small business owners have financially supported community or civic groups, sixty-three percent have provided in-kind contributions, and seventy-six percent of all business owners reported volunteering their time according to NFIB's 2024 Small Business' Contribution to the Community report.[1]

Small businesses are local job creators and the bedrock of the state and regional economies. Neighborhood employers continue to face significant financial challenges, including inflation, escalating utility bills, the highest possible state Unemployment Insurance taxes, an exodus of workers from the labor force, rising insurance premiums, and the threat of costly lawsuits.

In NFIB's latest Small Business Economic Trends report, 18 percent of small business owners report inflation as their single most important problem, and 35 percent of small business owners report job openings that could not be filled. The labor shortage continues to drive wages even higher with 33 percent of small business owners reporting that they raised compensation, and 20 percent plan to raise compensation in the next 3 months. Additionally, 22 percent of small business owners continue to report raising average selling prices[2]. The ongoing pressures of inflation and labor shortages are leading to growing uncertainty over future economic prospects and the opportunity for increased sales going forward.

In NFIB's 2024 Problems and Priorities report, New York small business owners ranked 75 potential business problems, with the top ten problems relating to taxes, regulations, economic uncertainty, and the cost of insurance and utility bills. New York's small business owners identified state business income taxes as the third most burdensome problem – six spots higher than the national average.[3] Other critical problems higher than the national average include government regulations (4th), electricity rates (7th), workers' compensation (14th), minimum wage (15th), credit card payment processing costs (20th), and unemployment compensation (21st). The top 20 problems for New York's Main Street illustrate small business owners' struggles with the cost and logistics of running a business in New York State.

Unfortunately, post-pandemic financial challenges and New York's difficult business environment have taken a toll on the small business eco-system and New York's economy at large. According to Empire State Development, since 2019, New York State has seen 2.2 percent growth in small businesses with fewer than 100 employees but a 2.4 percent decline in employment in small businesses[4]. There are nearly 11,000 more

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[1] NFIB Research Center, 2024 Small Businesses' Contribution to the Community, Nov. 2024. 2024 Small Business Contribution to the Community.ai.

[2] NFIB Research Center, Small Business Economic Trends, Jan. 2025. SBET Report - NFIB.

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

[4] New York State Empire State Development, Annual Report on the State of Small Businesses, 2024. https://esd.ny.gov/sites/default/files/media/document/2024-ESD-ANNUAL-REPORT-ON-SMALL-BUSINESSES.pdf

small businesses with fewer than 100 employees (due to growth in firms with less than 25 employees) but 75,000 fewer employees working in those businesses, undoubtedly a reflection of business owners trying to contain costs while also facing a severe labor shortage. More troubling, small businesses with more than 24 employees but fewer than 100 employees, have decreased by 4 percent over the last four years, and employment has fallen by 3.8 percent. New York has an opportunity to help small businesses overcome their challenges, stem the tide of out migration of New Yorkers, and put the state's economy in a more competitive and better position. This begins by creating an environment where small businesses are not merely keeping their heads above water but instead are prospering and expanding within New York State.

The Fiscal Year 2026 budget is an opportunity to ease the financial burdens plaguing small businesses across the state, reimagine the state's economic development strategy, and support pro-small business priorities to spur economic growth in communities across our state. New York State, county, and local governments spend more than $10 billion each year on economic development that often does not directly benefit Main Street or native businesses. The PFM "Economic Impact of Tax incentive Programs" commissioned by the New York State Dept. of Taxation and Finance demonstrates that numerous economic development programs are ineffective or inefficient. Of the more than two dozen tax credits and incentives examined by PFM, less than ten generated a positive return on investment for the state, and several were inconclusive due to a lack of data. Strategic and smart economic development programs should be part of the economic development incentive portfolio. According to best practices in the "Economic Impact of Tax Incentive Programs" by PFM Group Consulting LLC, "smart incentives help businesses overcome practical barriers to growth" and "customized assistance for locally owned, small and medium-sized businesses can have significant impact."[5] At this time, existing, locally-owned small businesses qualify for very few programs, while billions in taxpayer dollars are given to certain, often larger, companies.

As an example, the film production tax credit is now over $700 million annually, a massive sum, that goes into the pockets of Hollywood film production companies, rather than small businesses right here in our neighborhoods. This program does not have any overall positive impact on the state's economy, yielding only $0.15 in direct tax revenue and $0.31 for all combined state tax revenue for every $1.00 invested.[6] The PFM report also concludes that "it is highly likely, given the existing workforce and infrastructure, that much of the economic activity would occur in NYS regardless of the credit." Even though the PFM report finds the film tax credit does not have an overall positive impact on the state's economy, S.3009/A.3009, REV Part I proposes to extend the film

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[5] "Economic Impact of Tax Incentive Programs." PFM Group Consulting LLC, December 2023. [Is the NY Tax Incentive Program actually paying off for the state and taxpayers? (wkbw.com)]

[6] "Economic Impact of Tax Incentive Programs." PFM Group Consulting LLC, December 2023. [Is the NY Tax Incentive Program actually paying off for the state and taxpayers? (wkbw.com)]

production program through 2036 and enhance post-production credit. New York State should not continue to invest in or expand a program that has proven to be a poor return on investment. This provision as well as the following should be rejected in the final Fiscal Year 2026 spending package:

- S.3009/A.3009, REV Part L, extension of the New York City musical and theatrical production credit for two years and increases the available funds by $100 million. This program does not have any overall positive impact on the state's economy, yielding only $0.11 in direct tax revenue and $0.23 for all combined state tax revenue for every $1.00 invested.
- S.3009/A.3009, REV Part DD, extension of the musical and theatrical production credit for an additional four years. This program does not have any overall positive impact on the state's economy, yielding only $0.02 in direct tax revenue and $0.06 for all combined state tax revenue for every $1.00 invested.

Moving forward, the State must ensure that some of the state's economic development money is benefiting local, independent businesses. Most economic development programs available to small, family-owned, independent businesses are loan programs, which are sometimes useful to finance growth or expansion, but do not offer the same benefits or advantages as tax credits, grants, or tax-free incentives. Currently, existing, locally-owned small businesses qualify for very few programs, while billions in taxpayer dollars are given to certain, often larger, companies. New York should prioritize amending and funding grants and tax credits that can also be geared toward existing small businesses to help pay for business expansion, capital improvements, new equipment, and infrastructure and technology investments and upgrades. For example, S.3009/A.3009, REV Part H, which extends and amends the Excelsior Jobs Program is a much-needed and commonsense reform. This provision expands the "Jobs Retention Tax Credit" eligibility to include for-profit businesses of any size and in any sector and increases the credit to 15% for employers of 3 to 49 employees. Expanding existing programs that have a strong return on investment to small businesses is an appropriate economic development strategy. The PFM Group report found that this program "returned $2.76 or a net gain of $1.76 based on direct taxes to the state, or, including indirect and induced effects, a return of $5.25 on the dollar for a gain of $4.25." This is the type of return on investment that New York's economic development should focus on and prioritize. NFIB also supports provisions in the Executive Budget proposal to extend various hiring tax credits; however, state agencies need to do a better job of highlighting and promoting these programs as they are underutilized and rarely claimed by employers.

There must be a shift in the state's priorities that no longer subsidize big businesses and industries at the expense of small businesses. Out-of-state transplants should not be the sole focus with taxpayer incentives to compete with homegrown, local employers. Any business owner will agree it is 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.

Additionally, New York spends billions on procurement and capital investments which could be used as economic development drivers for local small businesses. Public projects and procurement contracts should be examined and re-envisioned as opportunities to spur economic development locally and government agencies should find ways to use New York small businesses to complete their construction or procurement needs. Far too many major contracts are awarded to out-of-state businesses because of overly stringent requirements written into contracts, project labor agreements, or RFPs. The federal government prefers to contract with small businesses, when possible, and sets small business contracting goals; New York State should emulate this practice.

Most importantly, economic development is more than tax credits, incentives, and grants. A successful economic development strategy requires reasonable, intelligent, and deliberate public policy decisions. There is a point where direct incentives do not outweigh the overall tax, regulatory, and anti-business environment created in Albany. Look no further than New York's $5.5 billion in taxpayer incentives provided to Micron compared to Idaho which is offering Micron a $45.7 million Tax Reimbursement Incentive, paid out "post-performance" contingent on Micron achieving its jobs obligations, and a property and sales tax break.[7] Idaho's tax incentives and credits pale in comparison to New York's, which demonstrates the Empire state's disadvantage in attracting businesses – it costs the state significantly more to overcome its tax and regulatory burdens.

Public policy is equally, if not more important for New York to get a good return on investment for public dollars spent on economic development. While the state has attracted some notable companies and industries through direct investment and incentives, there are far more businesses that have left the state, expanded elsewhere, or decreased their workforce and footprint in the state. These decisions by business owners, including small business owners, are based on the cost of doing business in the state. Oftentimes, these costs are unique to New York and easily solvable.

Generating a thriving economy does not solely require billions in subsidies and headline-grabbing projects, but also on creating a better business environment with lower taxes, fewer regulations, and more affordable insurance. A prosperous state and bustling communities are only possible if Main Street is alive and well. This will require improving New York's overall business climate, disciplined and deliberate economic

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[7] "Two years later, Micron mum on housing, transit investments in Idaho – but not in New York." BoiseDev, Aug. 2024. Micron quiet on plans for housing, transportation improvements.

policy, transparency, accountability, and eliminating wasteful programs with poor returns on investment.

NFIB thanks you for the time and consideration and looks forward to working together to create an environment that helps small businesses thrive, for the betterment of their employees, local communities, the economy, and all New Yorkers.