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Testimony on Effectiveness of Business Subsidies and Tax Incentives

Submitted to the Senate Standing Committee on Finance, the Senate Standing Committee on Commerce, Economic Development and Small Business, and the Senate Standing Committee on Investigations and Government Operations

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Thank you for inviting the Citizens Budget Commission (CBC) to testify on a topic that is critically important to the State's finances and economy. I am Patrick Orecki, CBC's Director of State Studies. CBC is a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services, finances, and policies of the New York City and New York State governments.

In New York State, various agencies and entities administer economic development programs with a total cost of [\\$10 billion annually](#) in 2019. While New York is a leader in the scope and amount of its economic development spending, it is not a leader in job-creating projects. It fails to rigorously evaluate the effectiveness of its economic development spending and does not demonstrate that this spending is producing sufficient results.

One of the foci of today's hearing is to "explore ways of providing for better mechanisms for evaluating the cost effectiveness of these incentives." To this end, I offer five recommendations that would improve the oversight and management of the State's economic development programming.

First, the State should present a unified economic development budget so that New Yorkers know how much is really being spent. The full census of economic development deals – including direct grants, subsidies, tax breaks, discounted utilities, and all other arrangements – spans multiple agencies and entities. Currently, defuse spending virtually masks the magnitude of New

York's investment. CBC catalogued what was spent in 2019 and is now updating that research. We expect the price tag to grow as individual initiatives have grown in size and new initiatives have been added.

The State should present the unified economic development budget in the Executive and Enacted budgets each year. This transparency would allow for more informed budget negotiations in which the Legislature and Governor can better weigh spending for economic development purposes against other priorities. It also would shed light on potentially duplicative or overlapping efforts, the portfolio of programs and strategies being deployed, and potential gaps that could be addressed.

Second, the State should establish standardized metrics for economic development initiatives. Standardizing metrics is essential to identifying the impact of each deal and program and comparing the relative cost effectiveness among deals and programs. For example, the definition of a "job" should be consistent across programs. Currently, some programs use a count of employees, whereas others use full-time equivalents, meaning that part-time or temporary employees are counted differently by different programs. Metrics to be standardized include: jobs created, jobs retained, private outlays, public outlays, and the timing terms of agreements. This applies both to setting the parameters of deals and to performance reporting.

Third, the State should improve its Database of Deals. A Database of Deals should publicly and regularly report on the cost, progress, and evaluation of all economic development initiatives Statewide. CBC and other watchdogs were pleased to see the Database of Deals funded three years ago, and then to see its first iteration, the Database of Economic Incentives, released last year.

However, the Database is lacking in key dimensions, which [CBC, Reinvent Albany, and other watchdogs identified when the Database was published](#). The Database meets 8 of the 20 criteria for a sound database that CBC and others [identified in 2018](#). The released Database deserves good marks for functionality and user friendliness. However, it deserves poor marks because it does not include all spending (limited only to spending through Empire State Development for the past three years), does not standardize metrics, and is missing documentation. ESD and the State should prioritize making needed improvements and the State should pass legislation to codify and require a sound database.

Fourth, program design should be improved by requiring private "skin in the game," performance metrics and penalties for non-performance, and evaluation. All project- or company-specific programs should be contingent on private investment made in concert with the public investments. All deals should be implemented within [clear eligibility and programmatic](#)

[parameters](#), meaning programs should only award funding within defined parameters for eligible entities. Ad hoc deals with specific companies or projects hamper the benefits of a holistic strategy. All programs should set clear benchmarks for continued funding and assessment, or penalties when agreements are not fulfilled.

All programs and initiatives also should include thorough, public evaluations using the standardized metrics. Currently, most programs are not evaluated, and the existing evaluations are inadequate. For example, the State's film tax credit is subject to biennial reviews by an independent contractor. While those evaluations provide some useful information about the activities of the program, they do not facilitate comparison to other programs, assess whether the program is achieving performance benchmarks, or require recommendations for program improvement. They suffer from all of the problems I have described—non-standardized metrics, a lack of job commitment benchmarking, and no comparisons to other programs. The evaluations erroneously imply that all jobs and spending in the supported industry would not exist without the subsidies.

Fifth, oversight should be improved. The Comptroller and the Authorities Budget Office (ABO) both serve important roles in approving economic development deals and reporting.

Procurement oversight powers of the Comptroller's Office should be restored, and [funding for the ABO](#) – which has oversight of some economic development entities – should be increased.

Today's hearing also is meant to “examine the effectiveness of various economic development incentive programs in meeting their stated goals.”

CBC has previously found that the [Regional Economic Development Councils](#), while conceptually an appropriate and productive structure, are not providing maximum value due to the lack of a comprehensive State and regional strategy that drives project selection, dispersed investment that reduces impact, and inadequate transparency and evaluation. We have also found that the [film tax credit](#) provides unnecessary subsidies to an established, profitable industry. We have noted that [fossil fuel subsidies and tax breaks](#) should be evaluated to ensure they effectively meet the range of State policy goals including greenhouse gas reduction targets. We have also identified other programs targeted to specific industries, such as horse racing, that should be more closely examined.

While there is not yet a proposal, we prospectively urge caution if the State does consider supporting the construction of a new football stadium in Buffalo. It is critical that the parameters of any proposal be completely transparent, and that the proposal's full costs and benefits be evaluated appropriately. Historically, most substantial public sector subsidies of stadiums have not proven to provide commensurate benefits.

In addition to the important findings and conversations on the State's economic development initiatives being covered today, the Legislature should also consider the costs that make business development in New York expensive and difficult. The [highest businesses taxes and personal income taxes in the nation](#), plus laws and regulations that increase the cost of building and operating a business in the State, diminish the State's economic competitiveness and its ability to retain, expand, and attract businesses and jobs. Economic development incentives are often [not a cost-effective strategy](#) to compensate for high taxes and high costs of doing business.

Thank you again for the opportunity to testify today and provide CBC's recommendations. I am happy to answer any questions today and in the future.