NEW YORK STATE SENATOR

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Testimony Before the New York City Council Committee on Economic Development Regarding Reporting Requirements For Corporate Subsidy Agreements on June 9, 2004

LIZ KRUEGER July 12, 2010

Good afternoon, I am State Senator Liz Krueger and I represent the 26th Senatorial District, which includes Midtown and the East Side of Manhattan. I appreciate the opportunity to testify today regarding Intro 373, which would establish new reporting requirements for the Economic Development Corporation, and allow for better oversight of the effectiveness of corporate subsidies in creating and retaining jobs in New York City. I strongly support this legislation, and have been pursuing similar efforts at the state level, where I have introduced S.5921, the Corporate Accountability for Tax Expenditures Act. I believe that the city and state can and should work together to build a more comprehensive system for monitoring corporate subsidies, and I welcome this legislation as a critical part of that effort.

The key reason it is essential to address the issue of subsidies at both the state and city level is that the same corporations frequently receive tax breaks and other support from both levels of government for the same project. Both the state and city must work together to ensure that we are not forfeiting revenue for no real benefit in terms of job creation and retention. Unfortunately, at both levels of government, at present there is far too little oversight of corporate subsidies, making it hard to determine what we are actually getting in return for lost revenue.

Furthermore, to the extent that there is reporting under the current system, it is clear that neither the city nor state is effectively administering economic development incentive programs. Our economic development strategy has been a defensive policy that reacts to individual companies' threats to leave, and has resulted in an overemphasis on the finance and real estate industries. In fact, with the overwhelming majority of retention deals being in the financial services, banking, and insurance industries, they have almost exclusively focused on Manhattan's central business districts. According to a recent report issued by Center for an Urban Future entitled *Engine Failure*, these policies have destabilized the city's economy, ignored the employment needs of most residents, and failed to develop a comprehensive workforce development strategy. We need to foster an economic development strategy that focuses on a more diverse economy and a broader geographic base.

As such, New York City should reassess the commonplace usage of discretionary funding and subsidies for corporate retention deals. Over the past six years, more than $2 billion of New York City and New York State funds have gone to some of the world's most profitable companies in the name of job retention. Time and time again, New York City has given tax breaks and incentives to corporations, such as Merrill Lynch, Paine Webber, Chase Manhattan Bank, Citicorp and Viacom, only to be thanked by mergers and layoffs.

One recent and particularly egregious example of a misuse of these subsidies was the recent approval of $650 million in Liberty Bonds (funded through the state-controlled Empire State Development Corporation) and $42 million in city tax breaks funded through the Industrial Development Agency for the construction of a building for Bank of America at Sixth Avenue and 42nd Street. It strains credibility to think that subsidies should be required to encourage development on this midtown plot of land, which is clearly one of the most valuable locations in the entire country. In addition, these subsidies were approved despite the fact that Bank of America had failed to fulfill its obligations under a previous subsidy deal. In 1993, Bank of America asked for $12 million in sales-tax abatements in exchange for a promise to retain 1,700 employees at the World Trade Center. A few years later, the sales-tax deal was terminated when Bank of America merged with Security Pacific National Bank and laid off 800 employees.

The current system for corporate tax expenditure deals, so commonly used in our city, has raised many questions and concerns by the public and elected officials. My state legislation, the Corporate Accountability for Tax Expenditures Act, would help address these issues. The ultimate goal of the Act is to provide a comprehensive record of all economic development incentives that are entered into between state entities and businesses in order for the Legislature and the Governor to make well informed decisions about tax expenditures. The bill requires that state economic assistance provided by any state agency, public authority or public benefit corporation, as an incentive to a business organization must be based on the terms of a written incentive agreement between the department and the business organization. Most importantly, the Act mandates that if a business organization either fails to make the requisite level of capital investment in the project or fails to create or retain the specified number of jobs within the specified time frame, the business organization shall be deemed to no longer qualify for state economic assistance. I believe Intro 373 would accomplish similar goals at the city level, thus creating a more responsible and rational economic development policy.

It is essential to recognize that corporate subsidies increase the tax burden on average New Yorkers and increase pressure for cuts to essential services by substantially reducing the city tax base. It is essential that we know what we are getting in exchange for these clear costs. What we should be getting is a substantial increase in jobs where workers earn a living wage and receive adequate benefits such as health care. Unfortunately, our current system of oversight provides no comprehensive system for ensuring that subsidies are providing these benefits. Intro 373 would be an excellent step toward creating such a system, and I urge the council to act on this important legislation.

Thank you again for the opportunity to testify.