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

February 26, 2025

Hello, I am Ron Deutsch, testifying today in my role as a Senior Policy Fellow for Reinvent Albany. We advocate for open, accountable New York government.

First, thank you to the legislators who championed and passed the law requiring an independent assessment of New York's largest reimbursable tax credits. The report you initiated once again confirms a huge body of research that shows that most, if not all, of the $4.5 billion a year New York is spending in the name of "economic development" is being wasted.

There is an overwhelming consensus from experts on the left, right, and center of the political spectrum that corporate subsidies are a terrible investment of taxpayer dollars. The only analysts that support corporate subsidies are getting paid by subsidized industries or their boosters in politicized economic development agencies. Please take a look at the short summaries of 25 of the most important independent studies on corporate subsidies attached to this testimony.

If you look at state spending as an investment, the math overwhelmingly favors spending on public programs that deliver broad societal benefits rather than corporate subsidies. Why? Because when New York invests taxpayer dollars on improvements for say, clean water, public transit, roads and bridges, or sustainable energy, it directly creates both good private and public sector jobs *and* an array of benefits for the broader public. In contrast, corporate subsidies may – though even this is often questionable – create some jobs and that's it.

Taxpayer dollars spent replacing lead line pipes create jobs and clean water. Subsidize a horror movie and you may get some jobs and what? Clean water versus a movie.

Today, Reinvent Albany is asking you to follow the facts and stop wasting taxpayer dollars on corporate subsidies. Regarding the Governor's

proposed FY 2026 budget, we urge you not to waste even more taxpayer dollars.

1. **Reject $1.8 billion in NEW cash subsidies for film/TV producers.**
   - $1.4 billion from extending the existing film/TV credit for two years per $700 million x 2 years.
   - $400 million from new Production Plus and Independent Film subsidies per $100m/year x 4 years.

Three Things about Film/TV Subsidies

First, if you approve these new subsidies, New York taxpayers will pay Hollywood producers $9.5 billion from 2024 through 2036.

Second, the film/TV tax credit cost NY $75,000 for one full-time job for one year in the first two quarters of last year – this is incredibly inefficient.

Third, despite their name, "reimbursable tax credits" are functionally off-budget state grants. They are payments from the state to employers based on their expenses, not tax liability. It does not matter if a movie makes a billion dollars or one dollar. Reimbursable tax credits are subtracted from state revenue before they are transferred to the General Fund for appropriation. This is *not* free money.

Reinvent Albany urges the Legislature to end this misleading and cynical fiscal charade and classify all reimbursable tax credits as on-budget grants.

1. **Reject $800 million in new Broadway subsidies.**
   - $400 million x 2 years. New York taxpayers gave Disney's multi-billion dollar media property the Lion King $3 million last year. Why?

2. **Reject a 10-year, $2 billion extension of the Excelsior program,** which gives tax credits to businesses to keep or create jobs. Labor economist Tim Bartik has shown these tax credits only affect job creation 2 to 25% of the time. Excelsior pays businesses to do what they would do anyway.

3. **Reject any extensions or additions to the Green Chip Subsidy.**

4. **Reject tax credit for R&D investments exceeding $100 million.**

5. **Reject any proposals to use $400 million in Albany downtown revitalization funding for a stadium.** A state investment in Downtown Albany is welcome; don't waste it on a stadium.

Please include in your one house budgets the following bills that increase transparency and save New York taxpayers from irrational and wasteful subsidy spending:

1. **Pass S3340 (Gianaris) / A3247 (Dinowitz) ending NY's Opportunity Zone** tax break before it costs the state and NYC billions.

2. **Pass S132 (Ryan) / A4297 (Bronson) to prohibit IDAs from abating $1.8 billion a year in school tax revenue.**

3. **Require more detailed reporting from ESD on film/TV subsidies. (Skoufis/TBD at time of writing.)**

4. **Pass S157 (Salazar) / A3063 (Rosenthal) to end subsidies for horse racing.**

5. **Pass legislation ending Off-Track Betting's status as government agencies.**

Summary of Supporting Arguments

1. Decouple New York's Tax Code from Opportunity Zones S3340 (Gianaris) / A3247 (Dinowitz)

For years, legislative leaders have said NYS does not have to end NY's Opportunity Zone tax break because OZs will not start affecting NYS tax revenue until 2029. The Trump administration is back and has publicly stated it intends to change Opportunity Zones, so **OZs could start affecting NYS tax collection as early as next year.**

The Trump affiliated industry lobbyists who created the original OZ program have used the U.S. Treasury Department to pass a regulation reinterpreting the law so that investors do not need to hold their OZ investments for 10 years – they can sell them, reinvest in a different OZ, and still pay no taxes on their gains (emphasis ours):

> Under the OZ incentive, investors are required to hold their investments in a QOF for a minimum of 10 years to qualify for exclusion of the capital gains created by their investments. In regulations, Treasury has interpreted current law to say that any capital gains recognized by a QOF prior to 10 years are generally taxable to its investors, unless the taxpayer reinvests the gain in a QOF. As such, if an OZ fund sells property within 10 years, any capital gain from that sale is generally fully taxable to its investors. This discourages many investors and investment fund managers with a shorter-period investment hold strategy from participating in the

OZ incentive. *A far better result would be to treat gains from the sale of OZ property by an OZ fund similarly to Section 1031 gains whereby an OZ fund that reinvests 100% of the proceeds from a sale into OZ property would not recognize the gain.* This modification would allow OZ funds to capitalize on successful investments and inject additional investments into even more low-income communities.

If the Treasury does pass such a regulation – as seems likely – New York will not be able to collect benefits from capital gains that occur under this proposal. Citizens Budget Commission originally projected that OZs will cost NYS up to $284 million and NYC up to $140 million annually from 2029 – but in fact, that day could come in 2026.

Opportunity Zones are a handout to the uber-wealthy and Trump allies, providing them tax-free gains for investments for yacht marinas, gun megasellers, oil and gas refineries, and luxury condos with dog spas. Because NYS reflects the federal tax code, the program also makes it so that NYS is subsidizing investments in other states. The proposals by the OZ working group (and others) will make the program even more damaging to NYS and NYC tax revenue. Please pass this bill now – as the Senate has done every year since 2022 – and stop kicking the can down the road.

2. Prohibit IDAs from abating school tax revenue. Pass S132 (Ryan) / A4297 (Bronson).

With new threats to school funding from the federal government, it's more urgent than ever that NYS pass S132 (Ryan) / A4297 (Bronson) and prohibit Industrial Development Agencies from abating the portion of property tax revenue intended for schools.

Good Jobs First found in 2023 that NYS schools lost $1.8 billion to tax breaks in 2021. These losses tend to be higher in districts with higher numbers of historically disenfranchised students such as racial minorities.

Public officials justify these handouts by saying that they're necessary to boost the local economy, but renowned scholar Tim Bartik has found that tax breaks only affect business location decisions 2 to 25% of the time. States and localities get much more bang for the buck when they make investments in education, job training, or public infrastructure.

3. Require more detailed reporting from ESD on film/TV subsidies.

Industry lobbyists like to claim that the film/TV tax break is revitalizing upstate by pointing to the handful of productions that take place upstate. However, ESD does not provide detailed reporting on how much of its subsidies go where, making it difficult to assess the overall impact of the program.

We encourage the Legislature to include in your one-house budgets upcoming legislation by Senator James Skoufis that will require ESD to report on a quarterly basis:

1. Qualified Costs incurred by each individual production project and in aggregate
2. Days of principal photography by each individual production and in aggregate
3. Total hires
4. Credit eligible hours
5. Amount of state credits issued

What limited data ESD does provide does not paint an encouraging picture for upstate investment: Of 371 productions listed in ESD's recently published 2018-2022 film/TV data, only 60 primarily took place outside NYC.

4. End subsidies for horse racing. Pass S157 (Salazar) / A3063 (Rosenthal).
The *Times Union*'s Emilie Munson has documented how since 2008, the state has provided at least $2.9 billion for horse racing, an industry with a proven history of animal abuse that provides minimal benefit to the public.

The state can start ending the subsidies by passing S157 (Salazar) / A3063 (Rosenthal), which would end subsidies for the purchase of race horses, as well as horses brought into NYS for racing.

5. End Off-Track Betting's status as part of government.
Under NYS law, Western Regional Off-Track Betting ("Western OTB"), which oversees gambling in much of Western New York, is incorporated as a public authority. We see no reason why Western OTB – or any OTB – should continue to exist as a branch of NYS government.

As we and two watchdogs stated in a letter to the Comptroller last year, Western OTB has a history of corruption that seems entrenched. Following budget legislation intended to shift control of the authority from Republican to Democrats, Western OTB's board authorized over $500,000 in golden parachutes to three senior officials, then proceeded to hire Byron Brown, who has no history in the industry, to oversee the authority. The board also refused to act on the nepotistic hiring of the former executive director.

Thank you for your consideration. If you have any questions, please contact Reinvent Albany at info [at] reinventalbany.org