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Testimony of Greg LeRoy
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To the State of New Mexico
Legislative Revenue Stabilization and Tax Policy Committee
Santa Fe ~ July 22, 2016

Good morning Mr. Chairman and thank you and the committee for the opportunity to testify today regarding our recent publication "Slicing the Budget Pie for Big Business."

My name is Greg LeRoy and I'm the executive director of Good Jobs First, a non-profit, non-partisan research organization I founded in 1998. We are based in Washington DC.

We believe we are well-qualified to analyze the issue of whether or not state economic development incentives are fair to small, local and/or entrepreneurial businesses. I have worked on the issue of economic development and incentives almost continuously since the late 1970s, and have written two books on incentives: *No More Candy Store* in 1994 and *The Great American Jobs Scam* in 2005. Besides contributing to numerous specialty publications, writing and/or editing more than 110 studies, and testifying before various state legislatures, I have trained very widely, including for the International Economic Development Council, National Conference of State Legislatures, Local Government Commission/New Partners for Smart Growth, the National League of Cities, the Council of Development Finance Agencies, and state-based associations of public officials. Staff who co-authored this study with me have Masters Degrees in urban planning or economics and three of us have career experience consulting for public economic development agencies.

Good Jobs First is home to Subsidy Tracker, a 50-state database of company-specific economic development incentive award records. It currently spans more than 740 federal, state and local programs, including six New Mexico state programs and 1,250 deals valued at more than $4 billion. It also associates subsidiaries to more than 3,000 global corporate parent companies. Subsidy Tracker, together with our 50-state "report card" studies, have made us de facto arbiters of best state practice in economic development transparency and accountability.

At the outset, I want to emphasize: the bias in favor of large businesses that we found in New Mexico was the same bias we found in two other states in "Slicing the Budget Pie for Big Business." And it was the same bias we found in those three states—plus 11 others—in a study we published last fall entitled "Shortchanging Small Businesses." The two studies explore the bias question from different data-angles, but they find remarkably consistent patterns. So we believe this bias is not at all unique to New Mexico; it is a 50-state issue.

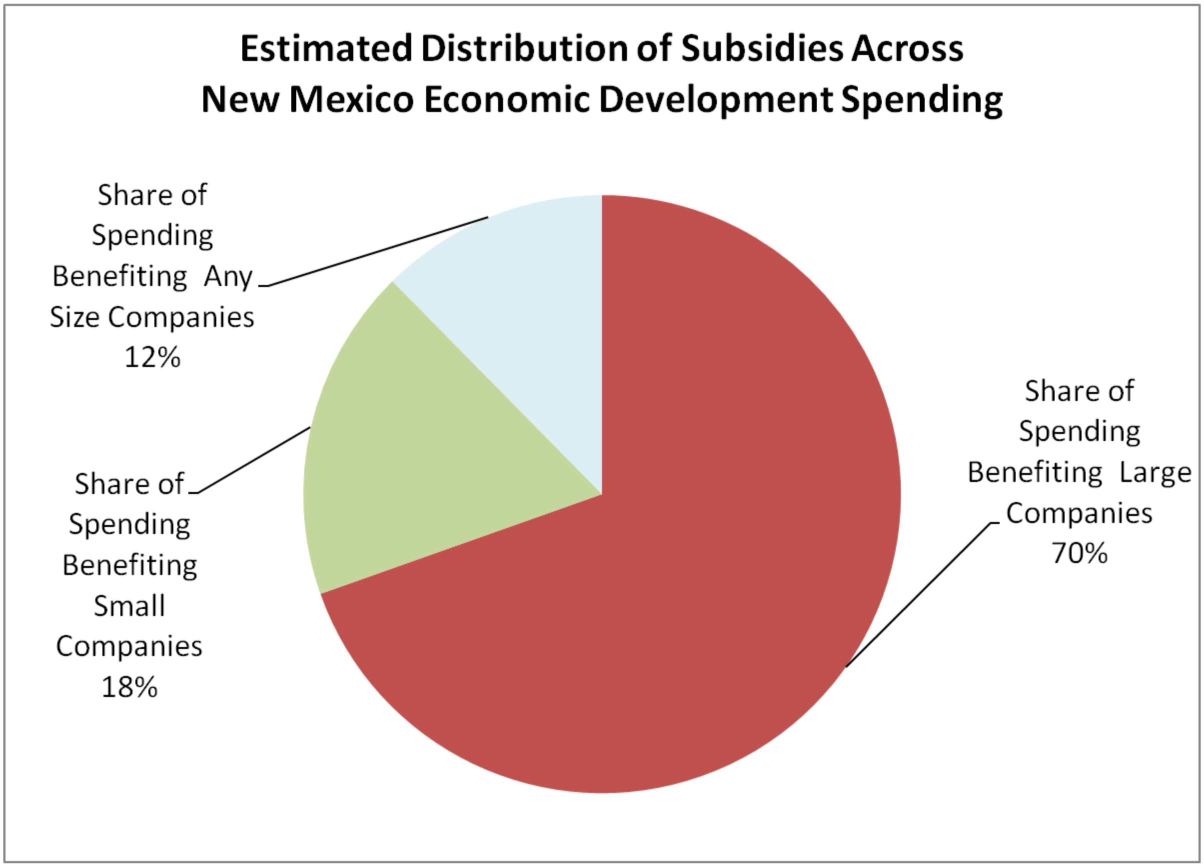
We also want to say that these studies are informed by our belief that small businesses deserve economic development assistance not only because they need it the most but also because some small businesses account for a disproportionate share of job creation and because locally owned businesses generate the strongest economic ripple effects.

With those caveats up front, let me discuss our New Mexico findings. As mentioned: "Slicing the Budget Pie for Big Business" was a follow-up to "Shortchanging Small Business" and in the former we analyzed the New Mexico High Wage Tax Credit program, specifically at 236 deals worth $77.7 million from 2011 through 2013. In findings very similar to other states, we found 70 percent of the deals and 93 percent of the dollars going to large businesses. (The program awards were obtained via freedom of information request.)

New Mexico High Wage Jobs Tax Credit, 2011-2013					
Deals			Dollars		
Total	# Large	% Large	Total	$ Large	% Large
236	166	70%	$77,659,445	$71,950,155	93%

In "Slicing the Budget Pie for Big Business," we approached the question of fairness to small business from a different angle. Instead of looking at an individual program, we looked at all of the three states' entire menus of economic development incentive programs that are meant for job creation and sought to assign each pot of money to the benefit of either small businesses or to large firms. We looked at the allocation of tax breaks (performing the same big-versus-small sort of incentive awards that we had done in "Shortchanging") and we also even looked at agency budgets to capture spending such as small business technical assistance. (And we chose the three subject states based on which of the 14 had the best data on spending, especially on tax-break expenditures. In that respect, we applaud New Mexico's transparency.)

We examined a total of 17 programs in New Mexico and used the most recent year of data available. In only two cases could we not discern a dollar cost: the New Mexico Start Up Factory and Industrial Revenue Bonds. Allocating a total of $63,306,471 we determined that 70 percent went to large businesses and only 18 percent went to small businesses. As in the other two states, some expenditures (12 percent) could not be assigned either way.



The breakouts are detailed in Appendix A at the end of our testimony.

Although we found that New Mexico has numerous programs aimed at helping small businesses, including Angel Investment Tax Credits and the New Mexico Small Business Assistance Program, a handful of programs with much bigger budgets benefit large firms.

For example, we had found in *Shortchanging Small Business* that 93 percent of the High-Wage Jobs Tax Credit dollars go to big businesses. That program alone accounts for almost a third of the state's economic development spending portfolio in a given year (about $20 million out of about $63 million).

More than three-quarters of the entries in our Subsidy Tracker database from the Investment Tax Credit for Manufacturers match to large parent companies, and this program accounts for a sixth of the state's spending on job subsidies. It also has a capital investment barrier to entry that effectively favors big business: a minimum capital investment requirement of at least $500,000.

Similarly, the Locomotive Fuel Gross Receipts & Compensating Tax Exemption has a very large capital investment requirement (at least $50 million) and is a significant benefit to one company, the Union Pacific Railroad. Indeed, spending on this program alone is about the same as spending on all of New Mexico's programs directly dedicated to small businesses (about $7.8 million each). Likewise, the state's technology related tax credits are dominated by companies with large-parent matches in our Subsidy Tracker database.

Two programs in New Mexico have qualification rules we called "agnostic" and also appear in Subsidy Tracker: the Job Training Incentive Program and the Technology Jobs Tax Credit. Their presence in our database enabled us to provide a reasonable estimate of the split between dollars to large and small companies, as we had done for the High-Wage Jobs Tax Credit program.

For the Job Training Incentive Program, we found that *at least* $40.7 million out of $65.7 million in our multi-year Subsidy Tracker sample accrued to large businesses, or about 62 percent. We applied this percentage to the $4 million reported by the agency in its 2014 annual report on the program. For the Technology Jobs Tax Credit, we found that *at least* $8.98 million out of $13.3 million in our Subsidy Tracker sample accrued to large businesses, or about 67 percent. We applied that share to the $5.1 million reported by the agency in the 2013 tax expenditure report.

When viewed together as a portfolio, it is clear that the state's investments on subsidies are skewed *against* companies that would appear to have the most legitimate public policy rationale for government intervention. Small companies, while less likely to leave a regional economy, often face credit availability challenges. They invest more into their local economies because of localized supply chains. A small local company is much more likely to hire locally than to import out of state workers.

All of this raises a critical question: Is New Mexico overspending on subsidies for companies that don't need government assistance while shortchanging small businesses that might?

How can New Mexico better target its approach to support a vibrant small business sector? Here are our policy recommendations.

Disaggregated Disclosure: We recommend states emulate Missouri's Tax Credit Accountability Report in its reporting of subsidy awards to firms in three different size ranges. This allows legislators and the public to quickly and easily scan economic development budget documents and grasp the allocation of dollars to companies of all sizes. New Mexico could go further by disclosing more important details about the types of companies receiving incentive awards. The complications with ownership structures for some types of programs can all too easily conceal the true beneficiary of subsidies. For example, as we mentioned in "Slicing," T Salvation productions, which received $19 million in New Mexico tax credits for a 2009 film, is actually a production company created for the film *Terminator Salvation,* a Columbia Pictures project with a budget of over $200 million. These data points should be included for each and every recipient of an economic development deal in a searchable and downloadable database. Disclosing the parent company is absolutely key to understanding how New Mexico is allocating scarce economic development dollars.

Improving Small Business Access to Credit: In a small-business opinion survey we conducted prior to these two studies, we heard repeatedly that small businesses' greatest need today is relief from the credit crunch that still plagues them from the Great Recession. We recommend that New Mexico explore ways to leverage its incentive code, and other financial levers such as linked deposits, to improve the flow of affordable loans to small businesses. (Among our respondents on that survey were the New Mexico Green Chamber of Commerce and Delicious New Mexico.)

Small Business Support Budget: We recommend that states do for themselves what we did here for three: annually calculate how many of their economic development dollars are actually benefiting small, local and/or entrepreneurial businesses (preferably using the definitional criteria we employed in *Shortchanging Small Business*) and then determine what share that is of its total economic development budget.

Program Sunsets: A number of states require the regular reauthorization of their subsidy programs as a means to ensure continued effectiveness. Every 3 to 5 years, a program must pass muster before a legislative body in order to continue operation. Budget documents like the one above ought to be timed to adequately inform legislators as they evaluate whether or not to re-authorize a subsidy program.

Reform Program Eligibility Rules to disqualify big businesses. One could call it means testing corporate welfare. To do so is entirely consistent with the theory of incentives, which is to address "market imperfections," or to "prime the pump" and then pull back when the market's invisible hand takes over. Large companies by definition are less likely to need help: they have management depth, access to credit, and established markets for their products or services. Subsidizing large companies is, on its face, not "leveraging" something that would not have happened otherwise, yet that is the definition of the word "incentive."

Spend Less by Capping: states should substantially reduce the total amount of subsidy dollars flowing to big businesses, using safeguards such as dollar caps per deal (to end the surge since 2008 in nine- and ten-figure "megadeals"), dollar caps per job (to prevent the astronomical subsidy rates associated with capital-intensive projects like micro-chip fabrication plants), caps on what is called "aid intensity" or the ratio of public subsidy divided by private investment, and dollar caps per company (to prevent a dominant employer from distorting spending).

Finally, we wish to thank the Surdna Foundation and the Ewing Marion Kauffman Foundations for funding both studies I've described.

Thank you again for the invitation to testify. I welcome your questions and feedback.

Appendix A:
Table X from "Slicing the Budget Pie for Big Business: New Mexico program splits

Program	Program Cost Year and Type	Cost of Subsidies to Large Companies	Cost of Subsidies to Small Companies	Cost of Subsidies to Any Size Companies
Angel Investment Credit	FY 2014 Program Cap		$2,000,000	
High Wage Jobs Tax Credit (93% of dollars went to big business per *Shortchanging Small Business* study)	FY 2013 Expenditure	$20,183,046	$1,519,154	*
Industrial Revenue Bonds	Not Available			
Investment Tax Credit for Manufacturers	FY2013 Expenditure	$10,147,900		
Job Mentorship Tax Credit	FY 2014 Expenditure			$14,400
Job Training Incentive Program	FY 2014 Expenditure	$2,492,371	$1,533,400	*
Local Economic Development Act (LEDA) Capital Outlay Funds	FY 2014 Expenditure			$3,285,000
Locomotive Fuel Gross Receipts & Compensating Tax Exemption	FY 2014 Expenditure	$7,800,000		
New Mexico Small Business Assistance (NMSBA) Program	FY 2014 Amount Invested		$4,700,000	
Rural Jobs Tax Credit	FY 2013 Expenditure			$71,400
Rural Software Development Gross Receipts Tax Deduction	FY 2014 Expenditure			$1,480,000
Space Gross Receipts Tax Deductions	FY 2014 Expenditure			$100,000
Technology Jobs and Research and Development Tax Credit	FY 2013 Expenditure	$3,431,283	$1,661,717	*
TIDD (TIF)	FY 2014 Expenditure			$2,351,800
Technology Transfer	FY 2015 Budget Appropriation			$300,000
New Mexico Start Up Factory	Not Available			
Trade Support Company in a Border Zone	FY 2014 Expenditure			$235,000
TOTAL $		**$44,054,600**	**$11,414,271**	**$7,837,600**
SHARES		**70%**	**18%**	**12%**

Appendix B:
Missouri Department of Economic Development
Tax Credit Accountability Report 2015
(sample page showing disaggregated spending by company size)

DED Incentives Reported by Business Size

January 1, 2014 to December 31, 2014

Business Size	Less than 100	100-500	>500
Applicable Programs Reporting:			
Amateur Sporting Contribution	$ -	$ -	$ -
Amateur Sporting Ticket Sales	$ -	$ -	$ -
Brownfield Demolition	$ -	$ -	$ -
Brownfield Jobs and Investment	$ 197,740.00	$ -	$ -
Brownfield Remediation	$ 1,941,917.33	$ 317,851.31	$ -
Business Facility	$ 81,059.00	$ 24,233.00	$ 5,997,366.00
Business Incubator	$ 122,421.47	$ -	$ -
Capital SBIC	$ -	$ -	$ -
Certified Capital Companies	$ -	$ -	$ -
Charcoal Producers	$ -	$ -	$ -
Community Bank	$ -	$ -	$ -
Development Tax Credit	$ 172,400.00	$ -	$ 1,996,841.42
Distressed Areas Land Assemblage	$ -	$ -	$ -
Enhanced Enterprise Zone	$ 3,079,833.98	$ 2,956,497.78	$ 1,513,754.46
Enterprise Zone	$ -	$ -	$ -
Family Development Account	$ -	$ -	$ -
Film Production	$ 25,000.00	$ 2,748,097.38	$ -
Historic Preservation (Developers Only)	$ 48,570,635.46	$ -	$ -
Loan Guarantee Fee	$ -	$ -	$ -
Missouri Manufacturing Jobs*	$ -	$ 50,379.00	$16,328,810.41
Missouri Quality Jobs	$ 10,351,650.28	$ 9,290,579.47	$31,595,894.91
Missouri Works	$ 579,281.00	$ 176,872.46	$ -
Neighborhood Assistance	$ 9,197,427.00	$ 1,987,909.00	$ 412,973.00
Neighborhood Preservation (Developers Only)	$ 2,024,312.18	$ -	$ -
New Enterprise Creation	$ -	$ -	$ -
Rebuilding Communities	$ 1,734,694.62	$ -	$ -
Research	$ -	$ -	$ -
Seed Capital	$ -	$ -	$ -
Transportation Development	$ -	$ -	$ -
Urban Enterprise Loan	$ 100,000.00	$ -	$ -
Wine and Grape (Businesses Only)	$ 22,388.61	$ -	$ -
Youth Opportunities Program	$ 3,909,441.00	$ 2,004,865.00	$ 148,269.00
TOTAL	**$ 82,110,201.93**	**$ 19,557,284.40**	**$ 57,993,909.20**

Note: Benefits issued to individuals, community colleges or units of government are not considered in this report.

****These programs are not tax credit programs.***