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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 ~ Tax Summit
Santa Fe ~ August 12, 2022

Good morning, Madam Chair and thank you and the committee for the invitation to testify today on "Taxes, Incentives and State Economic Performance."

My name is Greg LeRoy and I am the executive director of Good Jobs First, a non-profit, non-partisan research organization I founded in 1998. Based in Washington DC, we are the nation's leading watchdog group on economic development incentives.

You are debating policy in unusual economic times and unusual fiscal times. The nation has exceptionally low unemployment, your state has high oil and gas-tax revenues, and yet we also see Uncle Sam sending a barrage of fiscal stimuli to states and localities in the form of the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Infrastructure Investment and Jobs Act (IIJA), the American Rescue Plan Act (ARPA) and soon the Inflation Reduction Act (IRA).

The best thing you could with this unusual burst of federal generosity – the best thing for your "business climate" and state prosperity -- is to invest in your long-term quality of life. By that I mean specifically: early childhood education, pre-K through 12, community colleges, state universities, accessible broadband, public health, and other broadly distributed investments in your labor pool. I say that because in today's economy, with a long-term structural labor shortage (as the Baby Boom cohort finishes retiring), the #1 site location advantage has been, is now, and will remain <u>the supply of talent</u>. And to attract and retain talent, a state must have good quality of life. That talent in turn attracts promising employers. People and companies will pay for good schools and other public amenities.

Taxes and incentives are the least significant site location variable. They always have been and that is more true now than ever. Incentives almost never determine where a company chooses to expand or relocate. Why? Because all state and local taxes combined as a cost of doing business for the typical corporation in America come to just

1.8% of their cost structure (source: IRS). That means that the business basics – those variables that comprise 98.2% of the company's cost structure, together with the benefits a company expects for whatever costs it plans to incur – dwarf anything you could do by shaving off some piece of 1.8%.

This means that you, the state government and your local partners, should focus 98.2% of your attention and energy and resources on those big cost variables: skilled labor, infrastructure, public health, public safety, place-making, and customized training.

We urge you not to use this moment of federal generosity to cut taxes and damage your future tax base. We also urge you not to award huge sums to individual economic development deals – we call them "megadeals" – the way some states are today awarding huge sums to electric vehicle and EV battery factories, and to microchip fabrication plants. States have already awarded more than $12 billion to EV and EV battery plants, most of that in just the past year. (The subject of our next study.) Putting so many "eggs in one basket" is a risky strategy; just ask Wisconsin about Foxconn.

We also urge you to promote more democracy and participation in your economic development system by improving your disclosure practices. In our most recent 51-state "report card" study, of New Mexico's five major incentive programs that we graded, only two had any online disclosure at all. Your Film Production Tax Credits, High Wage Jobs Credit, and Tax Increment Development Districts (at the state-aggregate level) received scores of zero out of 100. Your Job Training Incentive Program and your Local Economic Development Act received scores of just 25 and 24 out of 100, respectively.

New Mexico could go further by disclosing more details about the types of companies receiving incentive awards. Ownership structures, for example, can conceal the true beneficiary of subsidies. For example, as we once cited, 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. Disclosing the parent company is absolutely key to understanding how New Mexico is allocating economic development dollars.

Finally, per my 2016 testimony to this committee: New Mexico will spend less an get more by redirecting its economic development resources to small, local, and entrepreneurial businesses. When we examined 17 of your incentive programs for which spending data was available, we concluded that: "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."

Thank you once again, and I look forward to your questions.