



Capital Investments, Capital Returns

**Corporate Tax Breaks and Campaign Contributions to Governor Pataki
and the New York State Legislature, 1999-2001**

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Introduction

2001 was a trying year for New York State. Between the World Trade Center crisis and the economic recession, New Yorkers have been challenged mentally, emotionally and financially. Although the economic climate is looking up, New York still faces a huge \$5.7 billion budget deficit, according to Governor Pataki. The Governor attributes \$4 billion of the deficit to the impact of the attack on the World Trade Center. Pataki has proposed closing next year's budget gap using \$3.3 billion from the "rainy-day" fund and other non-renewable funding sources and closing the rest of the gap with cuts in programs and services. Some examples of Pataki's proposed budget cuts are:

- **Education:** The Governor's budget proposes a freeze in state spending on education, which effectively amounts to spending \$1 billion less than the amount needed simply to maintain current services. Under the Governor's freeze, local school districts will have to either cut their budgets -- firing teachers and decreasing their supply of learning materials and other necessary educational resources -- and/or increase local property taxes. Those low-income school districts which rely most on state funds will be hardest hit.
- **College Student Assistance:** The Governor proposes to save \$220 million by deferring one-third of TAP grants to college students until after graduation. The TAP awards are need-based, so delaying them would make it much more difficult for low and moderate income New Yorkers to pay for college.
- **Legal Services:** The Governor proposes cutting every dollar, \$7 million, from legal services -- including \$550,000 for domestic violence cases -- soon after a commission appointed by Judge Judith Kay found that \$40 million is needed.
- **Senior Services:** Despite New York's rapidly growing senior population, the State Office for the Aging is budgeted to receive the same amount that it did in 1989. A major increase in funding is needed to clear up waiting lists and rebuild the neglected infrastructure of senior services.
- **Welfare to Work:** Two years ago the State Legislature provided \$47 million in wage subsidies for welfare participants, so that people leaving welfare to take low-wage jobs would not live in poverty. Last year the program had \$5 million of funding. Governor Pataki is proposing cutting the funding entirely for the upcoming budget year.
- **AIDS Services:** Governor Pataki's 2002-03 Executive Budget contains more than \$17 million in cuts to AIDS services and care.

While we are struggling to bridge this budget gap, banks, insurance companies and corporations are getting hundreds of millions of dollars in tax relief this year. Tax cuts for these companies signed into law between 1998 and 2000 will cost the state a total of \$738 million in the 2002-2003 budget year alone. Over a five-year period (2001-2005,) these new tax breaks for businesses will cost New York taxpayers a total of \$3 billion.¹

The Public Policy and Education Fund conducted this study to examine the influence of campaign contributions from companies which benefit from these tax breaks.

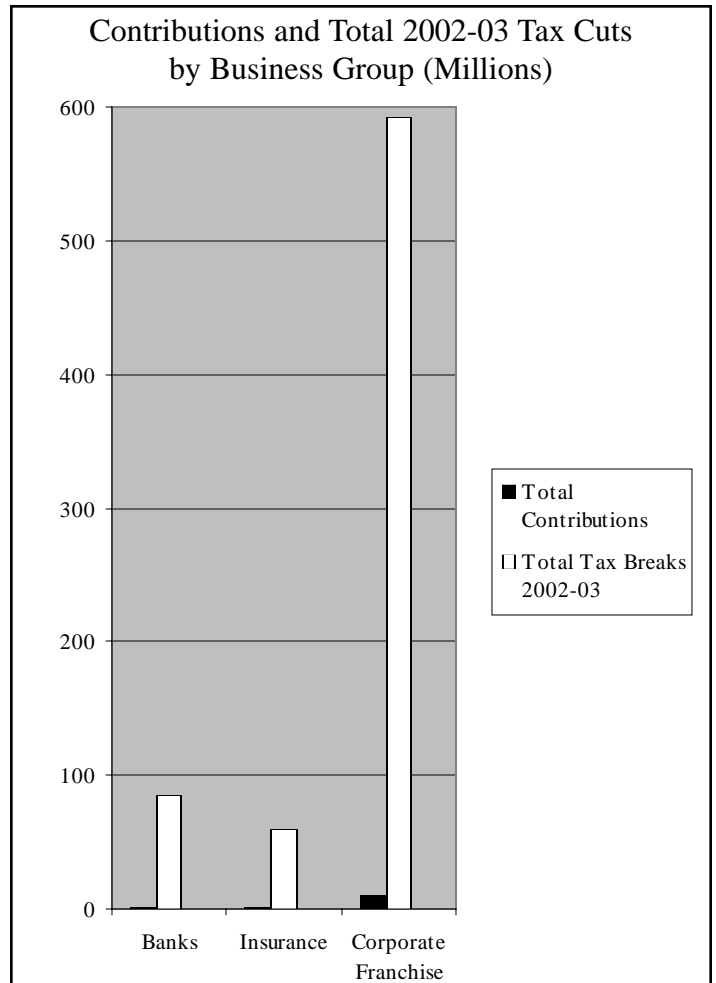
1. *Summary of Tax Provisions in State Fiscal Year 2000-01 Budget*, New York State Department of Taxation and Finance, August 2000

Findings

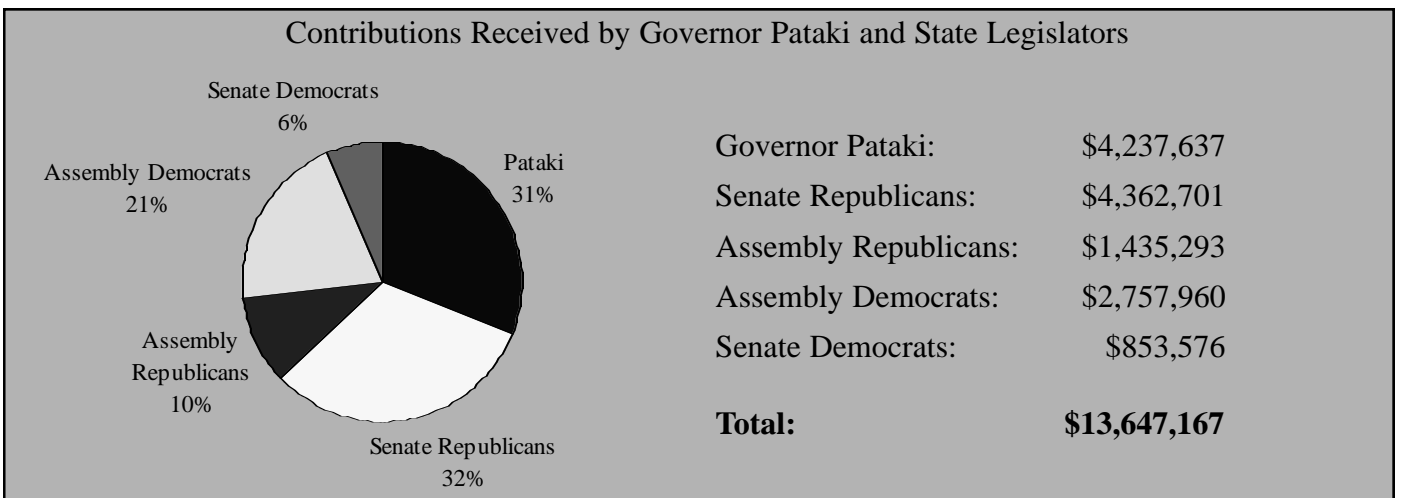
During the three-year period from 1999 to 2001, Governor Pataki and state legislators received a total of \$13.6 million from companies and executives of companies that benefit directly from these tax cuts. Banks contributed \$1.1 million, the insurance industry contributed \$2.1 million, and all other corporations contributed \$10.5 million.²

These companies made contributions to both houses of the legislature and both parties, although the majority party in each house received significantly more than the minority party and Republican legislators received significantly more than Democrats overall. The Governor received a total of \$4.2 million in campaign contributions from businesses which will benefit from these tax breaks. Senate Republicans received \$4.3 million and Assembly Republicans got \$1.4 million. Assembly Democrats got \$2.8 million and Senate Democrats collected \$850,000. Overall, Republican legislators collected \$5.8 million, compared with \$3.6 million for Democratic legislators.

Overall, business is receiving an outstanding return on investment -- \$13.6 million in campaign contributions for \$738 in tax cuts million in 2002-03, a 5,400% rate of return. Over five years, these tax breaks will provide them roughly \$3 billion in tax cuts, a 22,000% return on investment.



	Total Contributions	Tax Breaks 2002-2003	Tax Breaks 2001-2005
Banks	\$1.1 million	\$86 million	\$320 million
Insurance	\$2.1 million	\$60 million	\$250 million
Other Corp	\$10.5 million	\$592 million	\$2.4 billion
Total	\$13.6 million	\$738 million	\$3 billion



Governor Pataki:	\$4,237,637
Senate Republicans:	\$4,362,701
Assembly Republicans:	\$1,435,293
Assembly Democrats:	\$2,757,960
Senate Democrats:	\$853,576
Total:	\$13,647,167

2. Corporate contributions are defined as all donations reported to the Board of Elections under Schedule B -- Corporate Contributions. However, as individual campaign treasurers often do not use the coding for schedules as intended, this is almost certainly undercounting corporate contributions.

Methodology

This study is based on information issued by the New York Division of Budget, the New York State Division of Taxation and Finance, and campaign finance reports filed with the New York State Board of Election, as required by law, encompassing all donations to Governor Pataki and state legislators between January 15, 1999 and January 15, 2002.

Over the past several years, our research team has downloaded all of the campaign filings from the New York State Board of Elections website³ and identified the industry/interest of the majority of donations of \$250 or more from entities and \$1,000 or more for individuals. Working from the names of donors, researchers used a system developed by Larry Makinson of the Center for Responsive Politics to assign each contribution one of 429 codes based upon the interest and industry represented by the donor.⁴ These codes allowed us to specify contributions which make up the bank and insurance lobbies. Contributions from individuals were assigned categories based on the individual's primary employer or occupation. For individuals who were not employed, codes were assigned according to the individual's primary income source -- most often, the industry/interest of a spouse.

Category codes, based on the Standard Industrial Classification (SIC) system, were assigned by used in the ProCD database, which identifies SIC codes for businesses. For individuals, a multi-step research process was needed to identify employers and occupations. Unfortunately, New York State disclosure law does not require that individuals be identified by employer or occupation in campaign finance filings. Some contributors were identified using data from the Federal Elections Commission and the New York City Campaign Finance Board,

both of which require reporting of occupation and employer. A variety of internet searches and other research strategies were used to find the employer and occupation of a significant number of individual donors. When we were able to determine an individual's employer, his or her contributions are combined with any contributions made directly by that company. So, for example, if three employees of a particular company donated money, their contributions would be combined under the name of that company.

The total amounts quoted in this report for contributions from banks and the insurance industry are comprised of all contributions to Governor Pataki, state legislators, and legislative party campaign committees⁵ reported on five contribution schedules.⁶ The amounts given for all corporate contributions are all donations made under Schedule B (corporate contributions,) minus those included in the other two categories (banks and insurance companies.)⁷

The budget and tax information throughout this report was provided by Frank Mauro of the Fiscal Policy Institute.

3. <http://www.elections.state.ny.us>

4. The Center for Responsive Politics is a non-partisan research group that investigates giving to candidates for federal office and makes that information available to the media and interested members of the public. For a complete description of the category coding process and specific category codes, see the Center's "Follow the Money Handbook," Larry Makinson, Washington, DC, 1994

5. Democratic Assembly Campaign Committee, Republican Assembly Campaign Committee, Democratic Senate Campaign Committee and Senate Republican Campaign Committee, including housekeeping accounts

6. Individuals and partnerships (Schedule A), corporate contributions (Schedule B), all other monetary contributions -- PACs, organizations, etc.(Schedule C), in-kind contributions (Schedule D), and party housekeeping receipts (Schedule P)

7. As individual campaign treasurers often do not use the coding for schedules as intended, this is almost certainly undercounting corporate contributions

Banks

In 1998 and 1999, several different pieces of legislation were passed giving tax breaks to banks, including commercial banks, mutual savings banks and savings & loans.

In 1998, legislation was enacted making banks that are securities brokers/dealers eligible for an Investment Tax Credit for equipment and buildings used in connection with the bank's business as a securities broker or dealer. In late 2000, the Department of Taxation and Finance estimated that this tax break, as enacted in 1998, would provide banks with \$11 million of tax relief per year during the 2001-02, 2002-03, 2003-04 and 2004-05 state fiscal years. The estimated total benefit to banks of this tax provision over these four years is \$44 million.

In 1999, legislation was enacted to reduce the tax on banks from 9 percent to 8.5 percent for the 2001-02 budget year, 8 percent for the 2002-2003 budget year, and 7.5 percent for 2003-2004 and all subsequent years. In late 2000, the Department of Taxation and Finance estimated that these rate reductions, as enacted in 1999, would provide banks with \$75 million in tax relief in 2002-03, and \$320 million in total tax relief through 2004-2005.

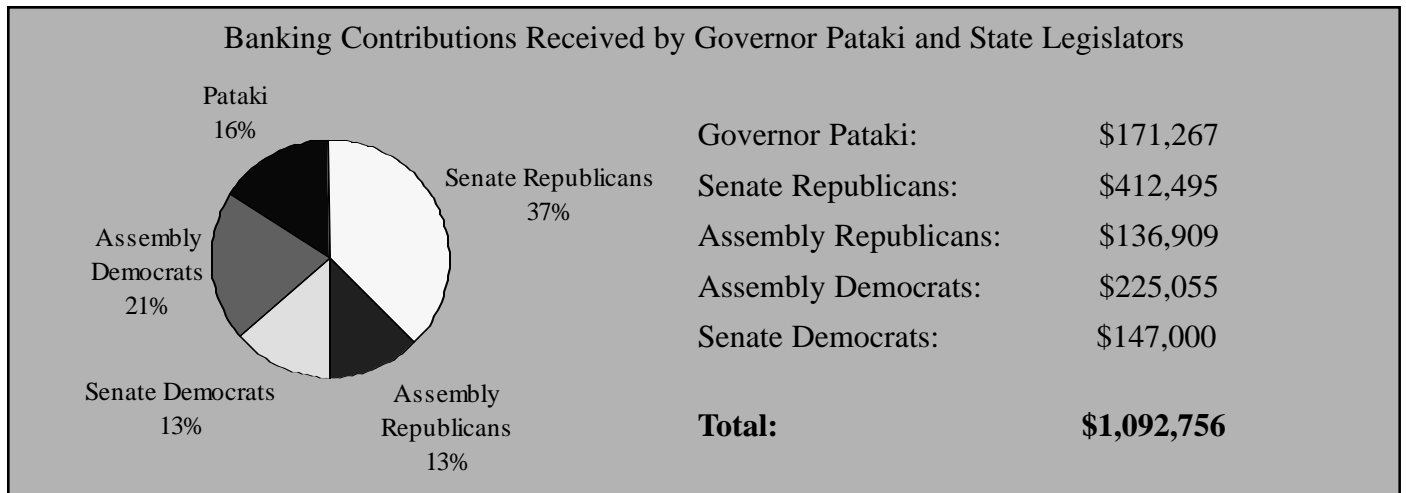
In total, the Department of Taxation estimates that tax cuts for banks enacted in 1998 and 1999 will cost taxpayers \$364 million through 2005, and \$86 million in 2002-03 alone.

Top Ten Banks / Banking Industry Groups

	Bank or Banking Industry PAC	Amount
1	CITIGROUP/CITICORP/CITIBANK	\$310,455
2	CHASE MANHATTAN	237,073
3	BANKERS PAC STATE FUND	147,800
4	DREYFUS / MELLON BANK	107,650
5	MBNA CORPORATION	100,000
6	COMMUNITY BANKERS ASSOC	82,825
7	NORTH FORK BANK	68,000
8	INDEPENDENT BANKERS PAC	63,875
9	KEY CORP	44,504
10	M & T BANK	40,864

Banks and banking industry groups donated a total of \$1,092,756 to Governor Pataki and state legislators between 1999 and 2001. Governor Pataki received \$171,267 from these companies, 16% of their total contributions. Senate Republicans received \$412,495, 37% of the total. Assembly Republicans received \$136,909, or 13%. Assembly Democrats received \$225,055 (21%) and Senate Democrats received \$147,000 (13%). Republican legislators as a whole received 50% of all contributions from these companies and groups, as compared to 34% for Democratic legislators. 66%, or 2/3 of all money contributed, went to Republican elected officials.

Banking companies and industry groups are getting an incredible return on their investment. For \$1.1 million in campaign contributions, they are receiving \$86 million in tax breaks this year and \$364 million through 2005. That's the equivalent of a 7,800% return on investment for this year alone, and a 33,000% return on investment through 2005.



Insurance

In 1999 and 2000, several different pieces of legislation were passed giving tax breaks to insurance companies, including property and casualty, health and life insurance companies.

In 1999, laws were enacted reducing the tax on insurance companies from 9 percent to 8.5 percent for the 2001-02 budget year, 8 percent for the 2002-2003 budget year, and 7.5 percent for 2003-2004 and all subsequent years. In addition, this legislation lowered the cap on total tax liability for property and casualty companies to the current rate for life insurance companies. The tax cap for property and casualty companies dropped to 2.4 percent for 2001-2002, to 2.2 percent for 2002-2003, and to 2 percent for 2003-2004 and beyond.

Among other benefits, this legislation established a second CAPCO program under which insurance companies can claim a credit for 100 percent of the amount invested in “certified capital companies,” or CAPCOs -- venture capital firms which invest in companies of up to 200 employees headquartered in New York which develop and manufacture products. This includes a statewide cap of \$30 million statewide and \$3 million per company. This means that the state is, in effect, paying for 100% of the CAPCO investments involved -- up to \$30 million per year -- but that the insurance companies involved get 100% of the return on those investments. In 2000, another CAPCO program (“Program Three”) was established, including up to \$150 million in additional expenditures.⁸

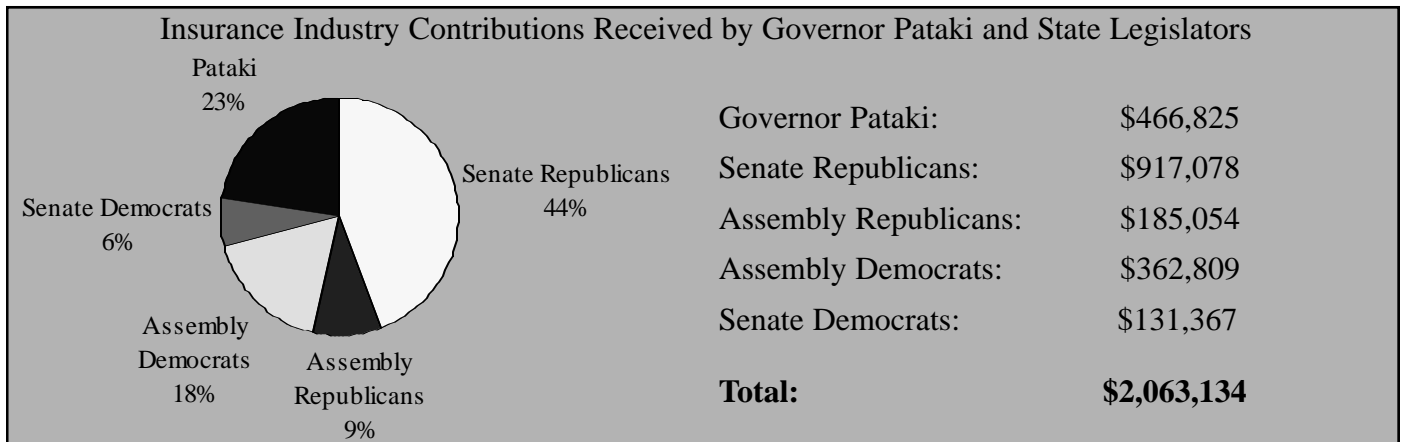
Top 10 Insurance Industry Companies / Groups

	Corp	Amount
1	METROPOLITAN LIFE INSURANCE CO	\$214,756
2	LIFE INSURANCE COUNCIL OF NY	\$180,942
3	NEW YORK LIFE	113,388
4	PROFESSIONAL INSURANCE AGENTS PAC	83,820
5	PHYSICIANS RECIPROCAL INSURERS	75,800
6	HEALTH PLAN ASSOCIATION (HPA PAC)	69,200
7	AMERICAN INSURANCE ASSOCIATION	64,875
8	ALLSTATE INSURANCE	60,700
9	INDEPENDENT AGENTS PAC	50,435
10	EQUITABLE LIFE ASSURANCE SOCIETY	41,250

In total, tax cuts passed in 1998, 1999 and 2000 are estimated to cost taxpayers \$60 million in 2002-2003, and \$250 million through 2005.

The insurance industry contributed \$2,063,134 to Governor Pataki and state legislators between 1999 and 2001. Governor Pataki received \$466,825 from these companies, 23% of their total contributions. Senate Republicans received \$917,078, 44%. Assembly Republicans received \$185,054, or 9%. Assembly Democrats received \$362,809 (18%) and Senate Democrats received \$131,367 (6%). Republican legislators received 53% of all contributions from these companies and groups, as compared to 24% for Democratic legislators. 76%, or 3/4 of all money contributed, went to Republican elected officials.

The insurance industry is getting an incredible return on its investment. For \$2.1 million in campaign contributions, they are receiving \$60 million in tax breaks this year and \$250 million through 2005. That’s the equivalent of a 2,800% return on investment for this year alone, and a 11,000% return on investment through 2005.



⁸ Under Program Three, CAPCOs are required to earn one third of the money claimed under this program from qualified businesses in Economic Development Zones, and an additional one third in qualified businesses located in underserved areas outside of Economic Development Zones.

Corporations

In 1998, 1999 and 2000, numerous pieces of legislation were passed reducing the Article 9-A Corporate Franchise Tax, the tax paid by all corporations except for banks and insurance companies.

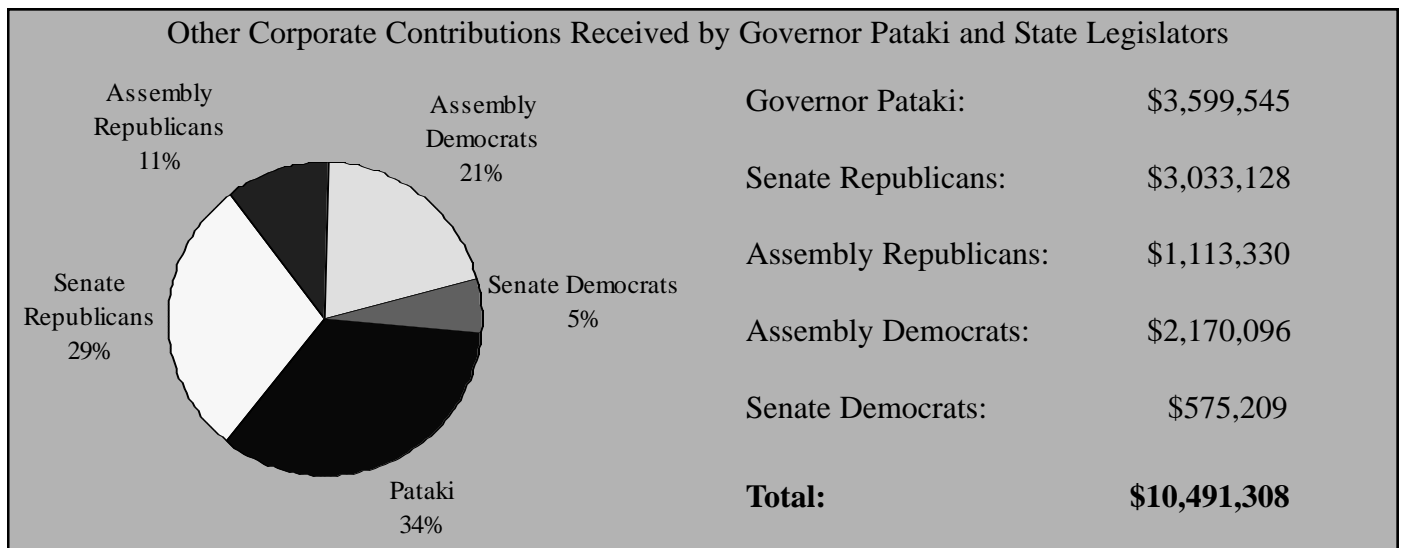
In 1998, the main corporate franchise tax rate was reduced from 9 percent to 8.5 percent for the 1999-2000 fiscal year, to 8 percent for the 2000-2001 fiscal year, and to 7.5 percent for the 2001-2002 fiscal year and thereafter. This reduction alone will cost taxpayers \$486 million in 2002-03, and \$1.8 billion through 2005.

In 1998, 1999 and 2000, New York State also enacted a laundry list of other tax cuts of benefit to businesses. These include reductions in taxes on airlines, securities brokers and dealers, and technology companies, as well as credits for such things as “transportation improvement contributions” (infrastructure improvements to business facilities) and financial securities brokers and dealers who invest in equipment and facilities associated with securities trading and advising clients.

In total, the corporate tax cuts enacted in 1998, 1999 and 2000 will cost taxpayers \$592 million in 2002-03, and as much as \$2.4 billion through 2005.

Corporate franchise taxpayers donated a total of \$10,491,308 to Governor Pataki and state legislators between 1999 and 2001. Governor Pataki received \$3,599,545 from these companies, 34% of their total contributions. Senate Republicans received \$3,033,128, 29% of the total. Assembly Republicans received \$1,113,330, or 11%. Assembly Democrats received \$2,170,096 (21%) and Senate Democrats received \$575,209 (5%). Republican legislators as a whole received 40% of all contributions from these companies and groups, as compared to 26% for Democratic legislators. 74%, or 3/4 of all money contributed, went to Republican elected officials.⁹

Corporate franchise taxpayers are getting an incredible return on their investment. For \$10.5 million in campaign contributions, they are receiving \$592 million in tax breaks this year and \$2.4 billion through 2005. That’s the equivalent of a 5,600% return on investment for this year alone, and a 23,000% return on investment through 2005.



9. Totals calculated using only Schedule B (Corporate Contributions). Since many contributions, especially from the largest corporations, are often reported on other schedules due to coding irregularities and legal loopholes, this method is not a reliable way to determine the total contributions from any individual corporation.

Conclusion

All money comes with strings attached, especially corporate money. Businesses exist to make a profit, and campaign contributions are a sure-fire way to do so. As legendary investor Warren Buffett said, "Corporations give for one reason: self-interest. They can easily justify their expenditures because they get an outstanding return on their investments."

Under our current campaign finance system, wealthy and powerful corporate campaign contributors can use their financial might to dominate the debate in Albany. Even in a time of budget deficits and financial and social crisis, businesses know that their tax cuts are secure. Our elected officials would sooner cut programs like education, social services and legal aid than delay the implementation of tax cuts which benefit their campaign contributors.

We need to get big private money out of our elections to protect the interests of ordinary citizens. We need to make our voices heard.

New York State needs **Clean Money / Clean Elections**, a voluntary system of public financing for candidates who show broad public support. Under **Clean Money / Clean Elections**, voters run on issues, not dollars. Elected officials work for their constituents, not their contributors. That's how our government is supposed to work.

Clean Money / Clean Elections provides a well-defined framework where candidates for public office must prove broad public support in order to qualify for a set and equal amount of public funds.

In return for these funds, candidates must abide by strict spending limits and agree not to spend their own money and not to accept any private contributions. All funds not spent at the end of an election are returned to the public treasury. Clean Money is a voluntary system that candidates can choose to participate in, and thus does not conflict with standing law or the constitution.

Two states, Maine and Arizona, have implemented **Clean Money / Clean Elections** laws, and two others, Massachusetts and Vermont, have passed Clean Money legislation. The first elections under Clean Money were held in were held for the Maine and Arizona state legislatures in 2000. One third of Maine's current legislators, and one half of Maine's state senate, ran without taking any private money.

Clean Money / Clean Elections legislation has been introduced in the New York State Legislature by Senator David Paterson and Assemblyman Felix Ortiz (S.1638/A.2630). About 50 state legislators have signed on as sponsors, and the legislation has been endorsed by more than 80 citizen organizations, including religious, senior, labor, environmental, tenant, student, women's, community, good government and neighborhood groups.

New York voters deserve more than the best candidates money can buy. It's time that candidates for election in New York turned away from our current system of one dollar, one vote and returned to the ideal of one person, one vote. It's time to replace our current system with **Clean Money / Clean Elections**.

Want to learn more?

Information on **Clean Money / Clean Elections** in New York is available on the Citizen Action of New York website at <http://www.citizenactionny.org/election.html>. Copies of previous PPEF studies on campaign finance in New York State are also available on the website.

Or, write or call:

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