Testimony of:
Kenneth Adams
President and CEO
The Business Council of New York State

New York State Division of the Budget
December 20, 2007

The Business Council of New York State thanks the state Division of the Budget for inviting us to highlight our concerns and recommendations about next year's Executive Budget.

Controlling state spending and promoting economic development and job growth, especially Upstate, should be guiding themes in the state budget for Fiscal 2009.

In the 12-month period that ended in October 2007, New York's job-growth picture improved a bit, with a growth rate that was just below the national average. But some significant economic weaknesses remain.

- **Upstate job growth in this period was an anemic 0.3 percent.**
- **Our manufacturing employment shrank nearly 3 percent over these 12 months, a loss of more than 16,000 high-wage production jobs.**
- **New York's fastest-growing sector was "education and health care," which depends heavily on government spending for its growth.**

New York's weak long-term growth is a in large part a function of high taxes, especially local property taxes, which are driven by high spending and onerous mandates on schools and local governments.

Therefore it is essential that we make tax and spending decisions that help improve the economic climate in New York, particularly in areas north and west of the New York City metropolitan area.

The problem is spending

New York State does not have a revenue problem. State taxes are not down, they are up – way up. DOB data show that total state taxes increased $5.1 billion last year, and are expected to go up $2.5 billion this year and $3.3 billion in 2008.

And New York tax burden is already the nation's heaviest. State taxes per capita are 20 percent above the national average, and the nation's eighth highest. Local taxes are the nation's heaviest, 53 percent above the national average. And business taxes are about 21 percent above the national average. No wonder New York State ranked 48th on the Tax Foundation's 2008 Index of State Business Tax Climates.

No, our budget problem is not because revenues are weak, it's because overall state spending continues to skyrocket.

The projected "gap" is based on expecting a General Fund state budget that will grow by $5.5 billion or nearly 10 percent. In fact, next year's General Fund budget would be $14.5 billion higher than just three years ago – an increase of 20 percent.

The head of DOB has said New York should limit long-term growth in state spending to the rage of growth of persona income, which is now about 5.3 percent. If we do that with spending next year, the projected General Fund deficit would immediately be cut by $2.6 billion.

And we don't think that is a sufficiently aggressive spending target. We prefer a cap in spending growth based on the projected rate of inflation, which is about 2.9 percent. To achieve this cap, New York State needs to impose additional cost-controls in big-ticket areas, such as Medicaid.

The need for continued tax reform

We have made modest progress reducing New York's tax burden. In 2005, New York adopted single-sales factor apportionment for corporate franchise taxes to benefit businesses that put jobs and capital in New York State. And earlier this year, we accelerated the phase-in of this reform, lowered the tax rate on most corporations, banks, and insurers, and lowered the alternative minimum tax.

But we also have taken some steps backwards earlier this year. We imposed mandated combined reporting on Article 9-A taxpayers, increasing the tax liability in the banking and insurance sectors. The result: A business tax increase of some half a billion dollars.

The Business Council opposed these tax increases in 2007, and we will vigorously oppose any tax increases in 2008, including those that are marketed as "loophole closings."

Promoting development and innovation

Instead of raising taxes, we urge the Governor to champion tax reforms to promote capital investment and job growth and retention. For example, New York should:

- Let businesses realize the full value of investment tax credits (ITCs) that are nearing expiration by using them to offset new capital investment in the state. Under this approach, old ITCs could be used to offset 50 percent of the cost of new investments, and 90 percent of the cost of new R&D spending. To increase the value of this incentive, unusable credits would be treated as refundable overpayment of taxes.

- Create a "new jobs" incentive, with state grants to employers based on a percentage of increased personal income taxes generated through new hires (an approach that is already being successfully implemented in several other states.)

- Expand the R&D ITC to 40 percent credit for tangible property investments, increase the credit cap to $500,000, and expand eligibility.

- Support the basic direction of the Governor's Commission on Higher Education, which has urged New York State to upgrade its research universities to spur innovation and development. The need to invest new state funds in this effort is all the more reason we must fight to restrain the growth of other, less productive spending programs.

- Permanently extend and "repower" major economic development power programs in 2008.

Property taxes and mandate relief

STAR is seen as a source of modest relief to lower- and middle-income New Yorkers, but it imposes no controls on growth of school taxes. No wonder real property tax revenues increased by 7.8 percent a year in 2002-05, nearly three times inflation.

What's more, property taxes are a huge and growing burden on businesses and, thus, on our economy and job-growth efforts. But businesses get no relief through STAR, and they must pay these taxes whether they are profitable or not.

New York needs a meaningful limit on property tax levies and a lighter property-tax burden on businesses. We urge the Governor to propose:

- Significant mandate relief for local governments.
- A property tax cap that would apply to all classes of property owners, to ensure that mandate relief savings are delivered to all property tax payers.

Mandate relief ideas could include:

- Medicaid cuts and an outright cap (not a "3% cap") on the local share of Medicaid.
- Adoption of a defined contribution pension plan for all new local government employees.
- Repeal of the Triborough amendment to the Taylor Law, which limits the ability of local governments to negotiation on union contracts.
- More significant Wicks Law reforms that actually reduce labor costs on taxpayer-funded projects.
- Consideration of ability to pay and last-best offer in mandatory arbitration.
- Promotion of shared services and employees among neighboring units of local government.

These comments touch on several of the most significant issues and recommendations we have concerning the Executive Budget for Fiscal 2009. We look forward to continuing this discussion with both the Administration and members of the State Legislature.