

## **Budget Testimony Remarks**

**Kenneth Adams, president & CEO The Business Council**

**Joint Fiscal Committee Economic Development Hearing.**

**Tuesday, February 3, 2009**

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**Good afternoon Chairman Kruger, Chairman Farrell and members of the committees.**

**I am Kenneth Adams, president and CEO of The Business Council of New York State.**

**We have submitted detailed written testimony outlining our positions on many aspects of Governor's budget proposal. Thank you for your attention to that.**

**In the few minutes I have with you now, I want to summarize our major points and share our concerns about the economy.**

**And I want to ask that, in the coming weeks, when you make tough decisions about New York's fiscal policies -- about this budget -- you please make them with just one goal in mind – to restore our economy.**

**Economic recovery, here in NYS, must come first. Economic recovery must be "Job 1".**

**We are in the midst of a profound economic crisis – around the world, across the United States, and, especially here in New York.**

**A big part of the problem: We don't know where the bottom is, and we don't know how long this recession is going to last.**

**But for now, the data is clear. This is the worst economic disaster in our lifetimes.**

**Consider just a few of last week's headlines:**

**NYS lost 122,000 jobs in 2008 – over 10,000 jobs a month**

**On a single day last week, 70,000 global layoffs across various industries were announced – on one day!**

**We have the lowest investment in equipment and software since 1958**

**In housing -- the root of much of this crisis -- we are at the point of lowest new home sales and highest inventory on record**

**Consumer confidence in this country is the lowest on record**

***So what can you do?***

**We ask that you make key decisions as lawmakers to assure our economic recovery.**

**Specifically, you must enact policies that promote private sector job security and job growth.**

**Job security and job growth drive consumer confidence. And that is what we have to find a way to stimulate.**

**Moving forward, here are some fundamentals.**

**#1. Government cannot strengthen the economy by raising taxes.**

**Taking additional money away from people and businesses in the middle of a profound recession will only make the situation worse.**

**Put another way, how would raising taxes now increase consumer confidence, or create new private sector jobs?**

**#2. We must reduce state spending. We just cannot continue our past state spending policies.**

**The mighty industry that enabled us to do that for many years – financial services—has been rocked to its core. Wall Street will never be the same; our state’s economy will never be the same; revenues for state spending will never be the same. The money is gone.**

**So, just like families across the state who suffer a loss of income, here in Albany we have to make tough adjustments to our budget – we have to spend less; we have to live within our means.**

**#3. We must make major fiscal reforms to position New York State to be competitive when the economy begins to recover.**

**#4. Now is no time to be reckless with our existing economic development programs, like Empire Zones, flawed as they may be.**

**It is hardly the time to be throwing thousands of NYS companies out of the program. More on that in a moment...**

**Here are some specifics:**

**We have a problem out of the gate: in the face of a fiscal crisis of historic proportions, the Governor has proposed a budget in which spending is flat. (\$121b in FY 2009 v. \$121b in 2010)**

**To support this continued spending the Governor is proposing more than \$4 billion in tax increases that will damage many sectors of our economy.**

**Among the most damaging are the \$800 million in new taxes on health insurance and health care.**

**These taxes will drive up health insurance costs for all employers from the smallest to the largest.**

**Energy is another hard hit sector.**

**Our already high power costs will be driven higher by the proposed increase on so-called 18-A assessments on utilities.**

**The governor's budget proposes an increase of more than 550 percent in these assessments, adding another \$651 million dollars to the public's utility bills.**

**The net effect of the proposed Executive Budget's five-fold increase in the 18-a tax would be a 1.6 percent increase on typical residential gas and electric customers' bills.**

**We are aware the Energy Association has submitted detailed testimony on this proposal. We share their opposition to this tax increase.**

**This proposal will also affect wireless communications providers. These same companies would be hit with an increase in local gross receipt taxes proposed in this budget that would add \$12.5 million to business and residential wireless bills.**

**Many legislators have expressed interest in seeing greater broadband investment by private industry, but this proposal discourages that.**

**The budget also proposes higher corporate franchise taxes for electric generators which will increase consumer costs and discourage investment.**

**The list goes on...**

**An increase in insurance assessments will damage both the life and property-casualty industries, in addition to health insurers, and force higher premium costs on New York residents.**

**Domestic life insurers are of particular importance to the state, maintaining headquarters in New York City, Binghamton, Syracuse and Albany and directly employing more than 30,000 New Yorkers.**

**We need to keep those companies, and those jobs here.**

**The tax on sweetened soft drinks and the expanded bottle bill would also increase consumer costs and weaken business sectors including food retailers and beverage and container companies.**

**The extension of sales tax to cable and satellite services will increase costs for business and residential customers by \$550 million.**

**At the same time the Governor is proposing these tax increases you are being asked to consider the “payroll tax” proposed by the Ravitch Commission.**

**This \$1.5 b “tax on jobs” will do serious damage to many employers in the MTA region. Placing a direct and permanent tax on payrolls in the 12-county MTA region will create an incentive for employers to move jobs out of the region even as the economy recovers.**

**The Business Council asks you to reject these proposals as well as calls to increase the personal income tax.**

**Instead, our detailed testimony recommends areas for spending reductions.**

**With our recent state budgets ballooning so far above inflation, a real course correction is needed to make New York competitive again.**

**As I said a moment ago – now is when we most need real and lasting fiscal reform in NYS.**

**Our BC Board of Directors has identified a series of fundamental reforms that New York must consider:**

- A state spending cap to limit the growth of state funded spending to the growth of the state’s economy. (CPI + population)**
- A property tax cap, as proposed by the Governor, with significant mandate relief for local school districts.**
- Pension reform, including a new tier for new hires, which the Governor has included in this budget.**

**We are also concerned that the changes to the Empire Zone program and cuts in the state's economic development agencies will harm the economy.**

**The Governor's proposal to require a new test, at a new cost-benefit standard, of 9,800 companies that have invested billions of dollars based on their Empire Zone benefits could have a devastating impact on our economy.**

**Changing the rules in the middle of the game will not only damage thousands of companies currently in the program; it will send a message that economic development agreements with New York cannot be trusted.**

**Economic development officials from other states are actively recruiting New York companies and they will use this against New York.**

**We agree that the Empire Zone program needs reform moving forward, and we would like to help you with that. But this is no way to start.**

**We do support the Governor's proposal to allow the sale of wine in grocery stores. This would help New York's grape growers and wineries, create revenue for the state, and benefit consumers.**

**To wrap up, our goal at The Business Council is private sector job growth. More jobs for more New Yorkers.**

**Yes, I guess you could say we are yet another "special interest group". But our "special interest" is the economy.**

**And I hope you all agree that the economy, right now, is really our common interest.**

**Thank you very much for your time and attention.**

**(I hope you have questions for me; I always enjoy our dialog.)**

## **Q & A points --**

- 1. Since NY already has the highest tax burden in the country, raising taxes hurts our ability to compete for jobs and investment.**
- 2. While the national recession and problems of Wall Street have made the situation in New York worse, we were already in trouble before those events. Our job growth has lagged national trends for 20 years.**
- 3. The high cost of doing business here due to taxes, energy costs, health care costs and regulatory costs have discouraged investment and job growth by established companies and new entrepreneurs.**
- 4. The core problem is too much spending. From Fiscal 2000 to Fiscal 2008, the state-funds supported spending grew by two and a half times the rate of inflation.**
- 5. If spending had simply grown at the rate of inflation the FY 2008 budget would have been \$20 billion less!**
- 6. Even growth at double the rate of inflation would have produced a budget \$4 billion smaller and much easier to manage in the face of the current recession.**

## **PIT?**

- 1. Before we have that discussion, we must make real reductions to state spending, and we put reforms in place so that we are not back here again in the same crisis situation next year.**
- 2. The BC is NOT to ready to support a PIT surcharge.**
- 3. Technically, from a tax policy standpoint, a temporary, broad-based, PIT surcharge (like we did after 9-11) is preferable to huge targeted taxes on businesses and consumers.**