



**Testimony of
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**Senate Finance Committee
and Assembly Ways and Means Committee
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Chairman Johnson, Chairman Farrell and distinguished members of the committees, thank you for inviting us to appear before you today.

In a moment, I'll offer our comments on the important decisions you will make over the next few weeks. I'd like to start with a personal observation, if I may.

I made my first presentation to these committees as president of the Business Council of New York State 16 years ago. It's truly been a momentous period. We've seen a lot of changes, but one change may be more important than any other. That is the nature of the political and governmental debate in Albany and throughout the state.

Back in 1990, it was still acceptable to deny that New York had economic problems significantly different from those of other states. The suggestion was that, if we were losing jobs, it was only because the national economy was not doing well. There were bitter debates over whether the nation's highest taxes, and other high business costs, made it harder for working people here to find good jobs.

Today, those debates are long gone. We all recognize that New York has made progress, but that we are not creating jobs at the same pace as most other states and that many Upstate areas are suffering. The Senate and the Assembly have joined with Governor Pataki to enact important reductions in our personal-income tax, business taxes and other taxes. Those reforms have made New York more competitive.

I won't go through the full history of the progress we've made. I will note that it started in 1994, when a Senator named Joe Bruno, an Assemblyman named Joe Morelle, and some of their colleagues who are still serving today, led the effort to finally eliminate the 15 percent corporate tax surcharge.

In the five years before that happened, New York had lost 443,000 jobs. Since then, as you and Governor Pataki have cut taxes, we've gained 762,000 jobs. Quite a turnaround.

We're still not where we want to be. In the past year, our private-sector job growth has been just a bit better than half the national growth rate. We still have not made back the jobs we lost in the 2001 recession and the aftermath of 9/11. We need to do much more, to keep up with other states and with hard-charging competitors around the world.

Yet the bottom line is that New York has hundreds of thousands of additional jobs, compared to what we would have if our performance had not improved. We congratulate

you and the Governor for the work you have done to make that happen. Because you've cut taxes, working people are better off. Let's keep it up.

In 1994, our Public Policy Institute published a book called *The Comeback State*. Its message was that, to turn New York around, we must focus on two priorities: Jobs, and kids. Our priorities have not changed. Today, I'll outline three areas in which we urge you to continue the work you have done to advance job creation, and to give our kids a better future.

Creating jobs: Tax reform works

We start with what we know has worked for us already: Making our tax climate more competitive by providing **immediate business-tax relief and meaningful property-tax reform**.

Governor Pataki's budget proposes important tax reductions that in some ways would bring New York to the same level as our competitors, and in other ways would actually place New York among the national leaders in encouraging business investment and job creation.

Allowing for the immediate **expensing of depreciable assets** and repealing the corporate **alternative minimum taxes** would jump-start investment in New York by significantly reducing the cost of capital invested in the state. The U.S. Census Bureau reported earlier this month that New York attracted only 3.6 percent of nationwide manufacturing investment in 2004. That's far below the investment we would have enjoyed if we had matched our share of the nation's population, gross domestic product, or existing manufacturing employment. Even with excellent incentive programs such as Empire Zones, New York is too often seen as unfriendly territory for investment because of our high business costs.

Senator Bruno has proposed total **elimination of the corporate franchise tax and personal-income tax on manufacturing companies**. That visionary proposal would show corporate decision-makers that New York truly is changing for the better. It is part of an overall business-assistance package totaling more than \$3 billion, an amount that truly makes people sit up and take notice. We strongly support the Senator's initiative, as we do Governor Pataki's business-tax proposals. We urge you to enact those proposals on an expedited timetable, so that the benefits for working New Yorkers will arrive as quickly as possible. I understand that Assemblyman Schimminger and a number of his colleagues will be introducing important business-tax proposals shortly, and we look forward to working with the Assembly as well.

In one key area, the **estate tax**, New York has become uncompetitive not because of any action in Albany but because of changes in the federal tax code. Elimination of the federal credit for state-level taxes means that New York estates now pay tax of up to 16 percent. In Florida, South Carolina and some 25 other states, a successful individual can leave a family business or other assets with no state-level tax at all. You and Governor Pataki acted in 1997 to effectively eliminate New York's extra estate tax as of 2000. Now that it has returned, the estate tax creates even a bigger incentive for successful New Yorkers to move elsewhere than was the case when you acted nine years ago. Lawyers, accountants and other professionals routinely advise their clients to move away and take their assets with them. When that happens, we not only lose some of our most productive

individuals, and the charitable and other contributions they make to the community. We lose the income tax and sales tax those individuals would produce in New York. We want them to stay, and pay taxes, here in New York. Repealing the estate tax is an essential step to that goal.

Property taxes continue to rise sharply across the state. Although you hear most often from homeowners, this is very much a business issue, as well.

Our economy is based, more than ever, on innovation. And innovation depends on the flow of information. That means it's in our interest to be ahead of our competitors in the deployment of broadband telecommunications networks. New York could, and should, encourage rapid deployment of broadband by **exempting new installations of fiber-optic cable by telecommunications companies from local property taxes** for a long enough period to allow an appropriate return on these costly investments. We suggest an eight-year exemption and phase-in of local property tax over the succeeding five years. That would provide a strong incentive for rapid growth of broadband, including rural and other areas that otherwise may wait many years for advanced connections to the global network. Such an exemption would help speed those connections, and would not take a cent from what localities now collect in property tax.

Existing businesses, and homeowners, continue to struggle to meet the high and rising cost of school, county and municipal property taxes. We urge you to take **real action this year to help all property taxpayers**, not just one class of property owners. The best way to do so is to restrain the spending growth that drives taxes higher. We urge you to enact Governor Pataki's proposals to **repeal the Wicks Law, reform binding arbitration and relieve localities of excessive litigation costs**. We strongly support the proposals by the Senate Majority to create a **local-option property-tax cap** and **expand the School Property Tax Report Card**. We support the proposals by the Senate Majority and the Governor to encourage **municipal consolidation and shared services**, as well.

The cost of creating a job: Workers' comp and health-care costs

It's not only taxes that make New York a high-cost place to do business. We urge you to act this year to reduce other major costs, particularly those for workers' compensation and health care.

The tough challenges facing a key manufacturing sector, our auto industry, have brought home the competitive problems caused by higher workers' comp costs. We want those good jobs – and working families need those jobs – to stay here for many years to come. Reducing the cost of comp should be a central part of our strategy to make that happen.

We agree with Governor Pataki that **comprehensive workers' comp reform** must start with reform of lifetime benefits that are not provided in most of our competitor states, particularly those in "**permanent-partial**" cases. A recent study from California found that such an approach, along with use of consistent medical guidelines and other reforms, reduced rates by 46 percent. We support the Governor's plan, which would reduce employer costs while providing a major benefit increase for injured workers. As part of that effort, we also urge you to reduce the cost of **workers' comp assessments**, which have risen sharply in recent years and are a larger-than-ever element in overall employer costs.

Assessments – we should call them fees, or hidden taxes – are also an increasingly troubling issue in the Insurance Department budget. **Insurance Department assessments** on domestic insurers are projected at \$194 million for the coming year, twice the level of just seven years ago and up more than two-thirds in just the last three years. These hidden taxes drive up the cost of health care, as well as the cost of other insurance. More and more, the Budget Division is charging insurers – and thus consumers – for the budgets of agencies such as the Department of State, the Department of Health, and the Office of the Attorney General. These “suballocations” have tripled in the last five years. We urge you to reject these hidden tax increases.

If there is one issue that worries business owners and managers in every industry, it is the cost of health insurance. In recent years, the Governor and the Legislature have addressed this issue primarily by creating more taxpayer-funded health coverage. If we continue down that road, we will not only increase taxpayer costs, we will drain more billions of dollars from other important needs. The only sustainable way to make health insurance more available is to make it more affordable.

That requires a number of steps, but today I'll focus on just one. We urge you to give employers the opportunity to provide **Freedom Health Plans** as proposed by Senator Seward and Assemblyman Morelle. More than 50 members of the Legislature endorse this important idea. We also support the Senate Majority's proposals for a new tax credit to help small businesses purchase health insurance.

The jobs and workers of tomorrow: Getting ahead of the curve

Although we are not creating new jobs as fast as most other states, we cannot lose sight of an equally important fact: We have enormous potential to do better.

New York is perfectly positioned to get “ahead of the curve” in terms of the growth and prosperity now being unleashed by new technologies, new ideas and new opportunities in the global economy. Our workforce is in the top ranks globally; our proportions of college graduates and graduate degrees are well above the national average. Our business community is on the leading edge of invention — a key reason we rank second of all states in new patents each year. We have a superb system of public and private research universities. We've moved faster than other states in reforming elementary and secondary education. New York City is the home base of the global economy, and the home address of the financing we need to put ideas into action. New York's future could be even better than we dare imagine, if we grasp the opportunities that flow from these strengths.

To reach those opportunities, we have to unleash the power of innovation. We propose moving boldly on a forward-thinking agenda that will strengthen our education system, our economic development programs and our research and development infrastructure, to give us the competitive edge we need.

Governor Pataki has proposed an important new **scholarship program to attract more math and science teachers** to our middle and high schools. The proposal calls for scholarships around \$5,000 a year. Such a program is essential because we want to ensure world-class math and science education for all youngsters, not just those in our wealthiest communities. Meeting that goal will require drawing individuals of truly outstanding quality into the teaching profession. We believe scholarships of \$5,000, the level proposed in the Executive Budget, will attract enough new teachers to close some of the shortages we face.

But they may not attract those who are truly gifted, given the differences in earnings and career opportunities between teaching and private industry. A \$20,000-a-year scholarship would be a different matter. Five hundred outstanding new teachers in math and science ultimately could make a world of difference for 50,000 kids in the classroom each year. That could make these scholarships the best investment in the school-aid budget.

Innovation and technology are now the centerpiece of the state's economic-development efforts. The proposed budget calls for more than \$1 billion in assistance for economic-development programs. Some of these programs work well, and some would benefit from a new approach. We urge you to **involve the private sector in each region** of the state more directly in the effort to target these investments toward the most promising uses in each region. In particular, the New York State Foundation for Science, Technology and Innovation that you created last year holds the promise of combining the strengths of private businesses and our world-class institutions of higher education to bring us new technologies, new companies and new jobs. We urge **quick action on moving the Foundation forward with a major private-sector role** in targeting the state's investments.

We still need fiscal reform, starting with debt reform

The issue of fiscal reform, a major topic of conversation last year, did not go away when the voters rejected Proposal One on Election Day. One of the clearest signs of the need for real fiscal reform is the rising level of state debt. The Budget Division estimates that annual debt service will rise by almost \$1 billion, to \$4.9 billion, over the next three years. That's a lot of dollars, even for New York – dollars that could be going to tax cuts and/or vital programs.

We strongly support Comptroller Hevesi's debt-reform proposal and urge you to enact it this year, including first passage of the comptroller's Constitutional limit on debt. Governor Pataki has made similar proposals. We also support a Taxpayers Bill of Rights that would limit future spending increases to a level the taxpayers can afford.

Thank you for the important steps you have taken, and the further progress we know will be made this year, to make New York more competitive for the jobs we need.

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