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NEW YORK STATE ECONOMIC DEVELOPMENT COUNCIL

MEMORANDUM

December 18, 2007

TO: NYS Budget Division

FROM: Brian McMahon, President; Jeff Bray, Chairman

RE: Testimony regarding the Executive's 2008 – 09 State Budget

Thank you for the invitation to testify today, and we commend the Governor and Budget Division for holding these unprecedented budget hearings, as well as the regional hearings held earlier. Joining me this morning is NYSEDC's Chairman, Jeff Bray, who is also President of the Fulton County EDC.

The New York State Economic Development Council is the state's principle organization representing economic development professionals. Our 900 members include the leadership of Industrial Development Agencies, Empire Zones, Local Development Corporations, commercial and investment banks, underwriters, bond counsels, utilities, chambers of commerce and private corporations.

The purpose of NYSEDC is to promote the economic development of the state and its communities, encourage sound practices in the conduct of regional and statewide development programs, and to develop education programs that enhance the professional development skills of NYSEDC members.

Charles Darwin wrote, "It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

This quotation could just as easily apply to economic winners in today's interconnected global economy. Those states, businesses and communities that adopt most effectively to change will be the winners.

Change means building on strengths and eliminating or mitigating obstacles to growth. New York has plenty of both. Clearly, the greatest barrier preventing

economic resurgence, especially in Upstate, is the high cost of doing business, particularly the tax burden, that New York imposes on people and businesses.

1. **Reduce the cost of doing business.** During the campaign last year, candidate Spitzer spoke forcefully and eloquently about the need to reduce cost and regulatory burdens that have driven jobs out of New York, especially Upstate. His words are more true today than they were 18 months ago, and that is why reducing the high cost of doing business should be the most important priority for the state in an effort to become more competitive. That means demonstrating budgetary discipline in order to make steady, sustained progress in lowering Real Property and Corporate Income taxes, as well as lowering the cost of electricity and healthcare. According to the independent Tax Foundation, NY's tax burden is the highest in the country. While the state may not be able to make major changes immediately, it must begin to make sustained progress this year. The best places to start would be to restrain spending growth to no more than the rate of inflation, begin a three year phase-out of the corporate income tax on manufacturers, and enact a meaningful cap on Real Property Taxes.

2. **Improve and preserve key development programs.** New York's most important economic development programs are Empire Zones, Industrial Development Agencies, and the Small Cities and Brownfield programs. These programs must be preserved, strengthened and evaluated using business metrics such as increases in investment and productivity that they help generate. This also means resisting pressure to add costs and delays to projects that use these programs by imposing new wage or regulatory requirements, or, in the case of the brownfield program, minimizing its economic development mission vis a vis environmental objectives. More jobs will be created in New York if we establish an environment where businesses are encouraged to invest. New York competes every day with states that have far lower costs of doing business than we do and still provide valuable incentives to business prospects. New York must be willing to do the same.

3. **Energy policies should meet future electric demands and establish predictability for New York manufacturers.** New York must adopt an energy policy that meets the state's future energy needs while providing savings to businesses that invest in New York State. Electric costs in New York are the fourth highest in the nation and several recent reports have indicated the need to site new power generating capacity to meet future needs of businesses and individuals. New York must adopt an Article X siting law and make the Power for Jobs and the Energy Cost Saving Programs Permanent by applying the 450 megawatts of NYPA power currently allocated to residential users to these programs.

4. **Strengthen ESD's regional offices.** ESD's regional offices could play a much larger role as economic development catalysts if greater resources were provided to support their mission and staff. ESD regional offices are being empowered to work strategically with businesses and economic developers in the regions to provide community development, small business, workforce development, project finance, and strategic planning assistance. The Administration has made a strong commitment to strengthening the leadership of the offices by hiring, in many instances, economic development

professionals to lead them. Increasing the resources these offices can deploy would result in the implementation of a vastly more expansive, aggressive, robust, and successful regional economic development program.

5. **Tax Increment Financing.** New York should make changes to its Tax Increment Finance (TIF) law so it can become a useful tool for helping municipalities redevelop distressed areas in their urban core. TIF is an effective economic development tool in many states, but only a handful of projects have used tax increment financing since 1984 when the law was first enacted in New York. The major obstacle with New York's TIF statute is that it does not allow school district property taxes to be included in the tax increment calculation. Since school district taxes are usually the largest portion of the total local property tax, the absence of that portion significantly reduces the amount of TIF debt which can be leveraged.

6. **Business marketing must be supported.** Finally, New York should invest \$5 – 10 million to market its business strengths. For more than a decade, the state has failed to invest anything for this purpose. Consequently, we marginalize the economic development value of the technology, university, and business strengths that we have, which are considerable. Implicit in an improved business marketing program is the expansion of the state's global marketing efforts. New York, in spite of being recognized as an international center for financial services, technology and R&D, and advanced manufacturing, has a limited presence in only five countries. As the value of the dollar falls, there are growing opportunities to attract foreign direct investment to New York, as well as opening new export markets for New York manufacturers. That cannot happen without having a far greater presence in foreign countries. Like any business with a product to sell, New York must have a business marketing strategy to tell its considerable story to potential investors.

Thank you for the opportunity to speak this morning.