

Testimony of Sandra A. Parker  
President and CEO  
Rochester Business Alliance

State Division of Budget  
Hearing on Economic Development  
December 18, 2007

Good morning, and thank you Budget Director Francis, incoming director Anglin, distinguished members of the division of budget and representatives of the executive branch for inviting me to speak to you this morning on this matter of critical importance.

I am Sandy Parker, president and CEO of the 2,400 member Rochester Business Alliance, and I'm here today representing the Unshackle Upstate coalition.

As you know, Unshackle Upstate is a coalition of business, trade and other organizations whose sole purpose is to raise awareness of the economic issues facing Upstate New York, and help develop solutions for revitalizing our region. The coalition was formed in 2006, with just two members – the Rochester Business Alliance and Buffalo Niagara Partnership. In less than two years, we have grown exponentially, and now have more than 60 members, including the chambers of commerce and leading business organizations of the region's major metropolitan areas – Buffalo, Rochester, Syracuse, Binghamton and Utica. The partner members of Unshackle Upstate, in turn, represent more than 32,000 employers in our region, with a workforce of more than 1 million.

In my many years as a business leader in Rochester, I have seen a significant number of Upstate coalitions come together, only to fizzle or fade from lack of interest. Unshackle Upstate is very different. I have never before seen the business community so united, nor seen the public as eager to lend its support. What makes Unshackle different? I believe it's because the message of Unshackle Upstate "We want our economy moving, not our people," resonates with the citizens of Upstate New York.

We know and appreciate that Gov. Spitzer and his staff recognize our concerns. While the challenges facing Upstate are daunting, we know that the governor and all of you are squarely focused on identifying ways to revitalize the Upstate economy. We at Unshackle Upstate remember (and appreciate) that the governor's very first public policy announcement – on Day Two right after his Inaugural Address – was the "Renew New York Agenda", a 15-point plan to spark an economic resurgence across Upstate.

And during this past year, the governor and his administration have been pushing hard to light that spark and get the resurgence going across Upstate. First, the governor delivered historic workers' compensation reform that is anticipated to drive down rates by over 20 percent. Then the governor established the Upstate Chair of ESDC and appointed Dan Gundersen as our first Upstate Czar. In September, the Governor and First Lady held the first "I Live NY" summit in Cortland to help identify ways to reverse the Upstate "brain drain." And more recently, the governor and Mr. Gundersen have together released "City by City" blueprints for Upstate's major metropolitan areas, which in my own hometown includes a proposal I'll discuss later that we believe will create jobs and revitalize Rochester's downtown.

Unshackle is thankful for all these efforts. And we particularly appreciate the governor's continued focus and attention on Upstate, and his recognition of how vitally important it is that we turn around our economy. Indeed, the governor said recently, (and I quote):

"the Upstate economy is perhaps the most important issue confronting me as Governor. It will be the most important measure of our success or failure. It is also an incredibly difficult issue to confront. We are pushing back against long-term trends, long-term economic factors that do not get resolved or transformed overnight ..."

At Unshackle, we could not agree more – this issue is both vitally important and incredibly difficult. Upstate continues to struggle. Job growth continues to significantly lag national results, with metros west of the Hudson Valley employing fewer people today than they did in 2000. Statewide, residents pay the highest per capita state and local taxes in the nation, while the high cost of doing business in New York inhibits companies from locating here and existing businesses from expanding and adding much needed jobs. As a result, New York as a whole – and Upstate in particular – is suffering a dramatic loss of population, as people leave the region for better job opportunities elsewhere.

With this in mind, let me share with you the key reforms that Unshackle Upstate is proposing in 2008. Our 2008 Policy Agenda focuses on three key areas:

1. Tax relief
2. Economic development policies – for today's discussion I will focus on shovel ready sites and brownfield regulations, as well as energy.
3. Regulatory reform as it pertains to the state's Scaffold Law.

Our first recommendation is a 3-part tax reform proposal targeted for Upstate. Unshackle Upstate believes that the key to revitalizing the Upstate economy is to continue reducing the high taxes and high costs of doing business. The governor's workers' compensation reform package was a giant first step in this direction. In our view, the next giant step in the governor's legacy to

revitalize Upstate must be a reduction in both business and personal taxes for the citizens of Upstate.

First, in the area of corporate taxes, we are calling for a 5-year phase-out of the corporate franchise tax (under article 9-A) on Upstate businesses. As you know, the corporate franchise tax is the main state tax on corporations in New York. And while the governor and legislature did in the 2007 budget reduce the tax rate from 7.5 percent to 7.1 percent, the overall tax burden on Upstate businesses remains way too high.

Eliminating the corporate franchise tax would be extremely helpful to Upstate in two ways. First, it would provide substantial, and desperately needed tax relief to existing Upstate businesses. But just as importantly, it would help make Upstate a far more attractive site for new businesses looking to relocate. Let me explain this second aspect. According to our good friend E.J. McMahon at the Empire Center – with whom we share credit for this proposal – if the state eliminated the corporate franchise tax in Upstate, Upstate would become one of the only places in America with zero state corporate tax on businesses. I cannot think of a better way to “put Upstate on the map” again than to eliminate all state corporate taxes. Just as Florida is now known to the rich and famous as the state that doesn’t levy personal income tax, let Upstate become known to big business as the place where there is no corporate tax.

We certainly understand that eliminating corporate taxes in Upstate initially would be costly to the state in terms of lost tax revenue. But we firmly believe it would pay long-term dividends as more and more large corporations seek to relocate to a tax-free Upstate. Indeed, one only need look at the dramatic turnaround in Ireland to see what lowering corporate taxes can do for a stagnant economy. In a few decades, Ireland was transformed from one of the poorest countries in Western Europe to one of the wealthiest, and economic experts point to Ireland’s low corporate tax rate as the key factor in that transformation. Just as low corporate taxes helped unleash the Celtic Tiger, we believe zero corporate taxes can help Unshackle the Upstate Tiger.

The second part of our tax proposal is a new STAR rebate for small businesses across Upstate. As we all know, small businesses are the backbone of the State economy, comprising nearly 98 percent of all companies and employing more than half of the state’s workforce. Small business owners face many challenges, but one of the toughest is rising local property taxes. Like homeowners, businesses pay substantial property taxes each year. Indeed, property taxes in New York state account for approximately 38 percent of the overall tax burden on businesses, making it the single biggest tax on businesses. Unlike homeowners, however, businesses do not share in the benefits of the STAR program. Unshackle believes this needs to change. To help small businesses across Upstate struggling with rising property tax bills, we propose a

new STAR tax rebate of \$700 for Upstate businesses employing 50 or fewer people.

The third and final part of our tax proposal is personal tax relief aimed at helping us keep our young workers and slow down the Upstate "brain drain." Earlier in my testimony, I referenced our Unshackle Upstate motto: "We want our economy moving, not our people." I could cite plenty of statistics on the Upstate "brain drain", but my guess is that is not necessary because we all know from personal experience about young family and friends who have left Upstate in search of better opportunities. We applaud First Lady Silda Spitzer for immediately seizing on this critical issue and creating the "I Live NY" initiative aimed at attracting and retaining New York's next generation. To help aid this initiative, we propose increasing the standard deduction for people ages 18 to 25 – those just starting their working lives – from the current \$7,500 to \$10,000. We also propose that those young taxpayers who itemize their deductions and are repaying student loans be allowed a \$2,500 state deduction on student loan interest. That would be on top of the current \$2,500 federal deduction, increasing the total deduction for those individuals to \$5,000.

Now I'd like to talk about our second agenda item - economic development - which is key to spurring growth in our region. But revitalizing upstate cities can not be accomplished without addressing the need for shovel ready sites as well as brownfield legislation reform.

The creation of shovel-ready sites facilitates job creation by removing obstacles to site development. Employers looking to expand or relocate operations are more likely to invest in locations where environmental planning, zoning and infrastructure considerations have already been addressed.

Case in point: Gov. Spitzer's announcement in October to invest up to \$65 million to convert Midtown Plaza in downtown Rochester to a shovel-ready site that would serve as the future home of PAETEC Holding. Midtown Plaza is one of the nation's first urban malls, but over the last decade has suffered a staggering loss of customers as well as retail tenants. To complicate matters, this largely unused site consists of several connected buildings – including a high-rise and an underground parking garage. Demolition for a private developer would be costly and environmentally complicated as the building is riddled with asbestos, a product commonly used in construction of that era.

PAETEC Holding is a 9-year-old telecommunications firm based in Perinton, a suburb of Rochester. The company recently went public after making an acquisition that turned it into one of the nation's largest telecom firms. PAETEC employs about 700 in Rochester - 2,400 nationwide - and has operations in 18 other states and the District of Columbia. With its growing success, PAETEC has been courted by a number of states to relocate its headquarters. But due to a

strong community commitment on the part of its CEO, PAETEC has agreed to build a new headquarters and move hundreds of jobs to downtown Rochester if Midtown Mall is converted to a shovel-ready site.

That announcement sparked sudden developer interest in the Midtown site – and neighboring properties – interest that has long been absent. Indeed, construction of a new high-rise PAETEC headquarters is being seen as a catalyst for revitalizing downtown. The state's role in stepping in to create a shovel-ready site on this property will not only retain and add PAETEC jobs, but likely will lead to development of neighboring properties, resulting in even more jobs.

We offer this proposed project as a model for the development and creation of additional shovel-ready sites in urban locations across upstate. To accomplish this, there will need to be additional investment and commitment by the state toward shovel-ready sites. The Environmental Restoration Program of 1996 originally provided \$200 million in municipal grants that could be used to assist in the creation of shovel-ready sites. Most of that funding has been exhausted, limiting the future prospects of shovel-ready site development in Upstate cities. Restoring, and expanding the funding of this program, with an emphasis on the development of Upstate shovel-ready sites, will go a long way toward helping revitalize downtown properties, which in turn will attract employers and create jobs.

In addition, the state needs to revamp its current brownfields program. Brownfields are about property values, return on investment and the willingness of businesses to assume the uncertainty, cost, time and liability associated with cleaning them up.

In Rochester alone, the city estimates it may have as many as 3,000 acres with brownfield problems. The city's capacity to clean up brownfields is limited to about 10 acres per year, and more than 90 percent of brownfield properties are privately-owned. This situation is not unique to Rochester. Other upstate cities also struggle with numerous brownfields, and lack adequate incentives to encourage private development.

Since the statutory brownfield cleanup program took effect in 2003, fewer than 92 acres have been remediated in all of Upstate. In upstate, low property values and depressed economic conditions have limited the number of brownfield projects undertaken by the private sector. Conversely, higher property values downstate and the opportunity for a greater return on investment have led to more private investment in brownfield remediation there. The incentives for the brownfield cleanup program need to reflect Upstate economic and real estate realities in order to increase the willingness of the private sector to invest in brownfield cleanup and redevelopment. We believe it is critical- especially in Upstate cities- that a balance be achieved between environmental remediation and economic development.

To address those issues, Unshackle Upstate has developed a series of recommendations, including:

- 1) Developing a state Brownfield Revolving Loan program for the private sector to help business finance brownfield investigations and cleanups.
- 2) Increasing brownfield cleanup program tax credits in economically hard hit environmental zones.
- 3) Reducing DEC oversight cost requirements for volunteers in the brownfield cleanup program and developing an appropriate fee schedule, competitive with neighboring states. There currently is no upper limit on oversight costs and payments are required within 30 days.
- 4) Developing an Interagency Brownfield Support Unity through the New York State Department of Environmental Conservation and Empire State Development to optimize the likelihood of cleanup and redevelopment success. Under this approach, DEC and ESD would bring applicants the technical support, financial incentives and funding tools for environmental cleanup, asbestos abatement, demolition and the creation of public infrastructure needed to support redevelopment.

In the end, it is our belief that a significant investment from the state in shovel-ready sites and brownfield reform will revitalize upstate cities, leading to the creation and retention of more jobs.

Concerning energy, Unshackle Upstate seeks a long-term energy policy designed to yield maximum economic development benefits while reducing regulatory costs and taxes. Every business requires energy, be it a small office or a large factory. And as the cost of energy has risen – New York has some of the highest costs to businesses in the nation – businesses are left with less and less to reinvest in their operations and add jobs.

Unshackle Upstate supports the operation of viable nuclear and coal generating facilities in order to ensure stable prices and greater diversity of supply sources, encourage the construction of new electric generating infrastructure to stabilize supply and costs, promote the use of renewable and alternative fuels, and support the establishment of a competitive bidding procedure for generators.

We also are asking the state to look closely at the host of taxes it levies on energy, charges that only serve to raise the cost of an already expensive commodity, adding to the already high cost of doing business in New York state.

The final recommendation in our 2008 agenda is Scaffold Law reform. As you all know, New York's Scaffold Law dates back to 1885 and is now the only law in the nation imposing automatic strict liability on contractors for worker injuries resulting from falls. This outdated and unfair law continues to drive up insurance costs for builders, contractors, developers and purchasers of property. Despite a few favorable narrow rulings from the Court of Appeals, liability

insurance rates continue to rise with no relief in sight. To help reduce this high cost of doing business, Unshackle calls for repealing – or significantly reforming – the Scaffold Law to strike a fairer balance between protecting worker safety and permitting employers to defend themselves against lawsuits. Taking action on the Scaffold Law also offers a unique opportunity – a way to have a positive impact on economic development in New York State without additional spending that would negatively affect the budget.

Tax relief, economic development that focuses on shovel-ready sites, affordable energy, reform - or better yet repeal – of the Scaffold law – each of these would have a significant, positive impact on businesses Upstate. And as you know, helping Upstate helps all of New York State.

Of course, we realize that the reforms and programs we are asking for will have an impact on the budget. But Unshackle Upstate firmly believes that spending restraint and achievable operating efficiencies in other areas of state government are an essential and appropriate way to fund these suggested initiatives. For example, inefficiencies in the state's Medicaid program contribute significantly to New York's per capita government debt, putting greater pressure on our economy. We also cite the recent Empire Center study that found the number of state employees to be at its highest level in more than 12 years, a statistic that further taxes the state budget.

Unshackle Upstate suggests that through significant budget reform and spending restraint, the state can address projected budget deficits so that business and personal tax reductions may be implemented without levying unnecessary taxes, fees or loopholes. In doing so, New York State will become more competitive for new business investment, helping Upstate's economy – and in turn the entire state's economy - to grow.

Again, on behalf of Unshackle Upstate, I thank you for the opportunity to testify here this morning. We look forward to working with the governor and the state legislature on the very important issue of economic development across Upstate and all of New York.

And now, I'd be happy to answer any questions you might have about my testimony, the Unshackle Upstate coalition or our 2008 Policy Agenda.