



Unshackle Upstate

Joint Legislative Public Hearing on the Executive Budget

Taxes

February 12, 2013

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Thank you for the opportunity to present this written testimony to the Joint Legislative fiscal committees regarding the economic development provisions of the Governor's 2013-14 Executive Budget proposal.

Unshackle Upstate is a non-partisan, pro-taxpayer, pro-economic growth, education and advocacy coalition made up of business and trade organizations from all parts of Upstate New York.

As an organization, our purpose is to achieve reforms in Albany that make Upstate New York a better place to do business. To this end, our priorities remain the same as they have since we were founded in 2006:

- 1. Reducing State and Local Government Spending**
- 2. Reducing Taxes, Fees and Assessments**
- 3. Reducing Mandates on Businesses and Unfunded Mandates on Local Governments and School Districts**
- 4. Reducing the State's Reliance on Borrowing**

The 2013-14 Executive Budget continues the recent commitment by the Governor and Legislature to control spending and reduce out year budget gaps. We are very pleased that the fiscal restraint policies that were resurrected in New York two years ago are continuing with this spending plan.

Structural budget reform and control is something that the taxpayers and the businesses that I represent have consistently noted as a major concern and we urge you to continue on this responsible path.

Unfortunately, there are a number of proposals included within the Governor's Executive budget that Unshackle Upstate does oppose, and we request that they be removed from the final state spending plan.

Extension of the 18-a Utility Assessment

As part of the state budget in 2009, New York State increased the "18-a utility assessment" on energy six-fold. This was intended to be a temporary assessment, and is scheduled to expire in 2014. In his Executive Budget, Gov. Cuomo proposes to extend this "temporary" surcharge for an additional five years, through 2019.

New York State's 18-a assessment was historically used to fund the operations of the Public Service Commission (PSC), the regulatory agency whose responsibilities include ensuring safe and reliable utility service and just and reasonable utility rates. To this end, the 18-a surcharge was statutorily set at one-third of one percent of the utilities' intrastate revenues

Extending this tax will cost all energy consumers (businesses, governments, schools, non-profit organizations and residences) in the state \$254 million in 2013-14 and \$509 million in subsequent years.

Unshackle Upstate strenuously opposed the increase of the 18-a assessment in 2009, and we continue to advocate for its immediate repeal. The extension of this hidden utility tax should be rejected by the Legislature. This tax is regressive, onerous, and undermines efforts to grow our economy.

New Yorkers have long been burdened with some of the highest energy costs in the nation, and a significant portion of the state's high energy costs are the result of taxes. Rather than extend this tax, New York State should be exploring ways to reduce the high cost of energy.

A 2010 report from the Public Policy Institute found that "fully 26.68 percent of New Yorkers' electric bills support state and local taxes and fees."

This equates to an average of \$614.48 that each household (single family homes, apartments, co-ops and condos) in New York pays in these taxes through their power bill. A family living in a detached, single-family home pays, on average, \$1,140.38 per year in state and local energy related taxes, fees and assessments."

High energy costs are a key impediment to New York State's economic growth. And because Upstate New York's economy is heavily dependent on manufacturing, high energy costs are particularly harmful to the Upstate economy.

Minimum Wage Increase

The 2013-14 Executive Budget includes legislation that would raise New York State's minimum wage by 20%, from \$7.25 an hour to \$8.75 an hour.

Our organization is concerned that if New York raises its minimum wage, it will do further damage to the already struggling Upstate economy. A higher minimum wage will adversely impact businesses, especially small businesses, by driving up the cost of the products and services these businesses provide. In short, it will serve as a drain on our economy.

Without a corresponding increase in income, employers of low-wage workers will be forced with the unenviable choice of either laying off existing employees or not hiring new ones. In addition, higher wages also mean higher costs for employers in the form of workers' compensation and Social Security taxes.

The effect of a mandatory increase in hourly wage rates will be a decrease in opportunities for entry-level employees. Economists Richard Burkhauser of Cornell University, Joseph Sabia of San Diego State University and Benjamin Hansen of the University of Oregon examined what happened in New York between 2004 and 2006, when the state raised its minimum wage by \$1.60 to \$6.75 per hour. The result: employment dropped by more than 20 percent for individuals aged 16 to 29 who lacked a high school diploma.

Moreover, a higher minimum wage means a higher cost of doing business. Businesses in Upstate New York, where the cost of doing business is already high compared to other states, may look for less costly places to operate their businesses.

Arguments that increasing the minimum wage will jump-start our economy are "voodoo economics." While a minimum wage increase may help some low wage workers, on the whole it will undermine the state's job creation efforts.

If we want to grow good jobs in Upstate New York, we need Albany to take steps to create a more business-friendly environment. Some obvious steps to that end are to reduce the tax burden, especially energy taxes, end onerous regulatory mandates (the paperwork mandate of the Wage Theft Prevention Act is just one example), and cut some of the regulatory "red tape" that makes it so hard to bring projects to fruition.

Mandate Relief

Following the enactment of the two-percent property tax cap in 2011, Unshackle Upstate helped organize a historic coalition of prominent business, local government and educational organizations to help advance meaningful mandate relief in New York State. The *Let New York Work* coalition was pleased that last year the Governor and Legislature addressed a key agenda item in enacting much-needed public pension reform – Tier VI. However, the list of unfunded

mandates on our municipalities and school districts remain long and additional reforms must be addressed now, in order to make our communities more affordable to live and raise a family.

On behalf of Unshackle Upstate, thank you again for the opportunity to share with your our views regarding the Governor's 2013-14 Executive Budget proposal.