Testimony To:

2014-15 Joint Legislative Budget Hearing on Taxes

Reducing Taxes, Assessments, Fees to Bolster Economic Development for Manufacturers

Presented By

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Good morning, Chairman DeFrancisco and Chairman Farrell, thank you for the opportunity to present testimony on the tax portion of the Governor's Executive Budget proposal. My name is Karyn Burns and I am here today representing MACNY, The Manufacturers Association.

As you may know, MACNY is a trade association representing over 330 member companies with over 55,000 employees within a 21-county region., Founded in 1913, we advocate for the growth and development of the manufacturing sector of New York State.

Most recently, our advocacy efforts have been somewhat overshadowed by one major issue that is critical to protecting our state's future economy: creating a better business climate for manufacturers. Simply put, New York State manufacturers are at a loss: not only are they dealing with the ramifications of an increasingly competitive global climate, but they also are being hit every day with continuously increasing business costs imposed by government. While I accept some of these imposed difficulties are the result of prior decisions made in years past, many of the decisions and increased costs have occurred more recently.

Adding insult to injury, due to its coveted impact on economic development and revitalization, New York based manufacturing has become increasingly vulnerable over the years, susceptible to both national and international competition. New York businesses continue to close their doors and relocate either to another state or even overseas, because of attractive incentive packages, lower production costs, cheaper wages, lower energy costs and a better tax structure. On account of these pressures on our sector, MACNY works consistently with policymakers to create, revise, and eliminate burdensome laws and regulations that negatively impact the manufacturing sector.

However, despite significant challenges over the past few years, our manufacturers are still here, and they are doing everything they can to continue operations, sustain and grow jobs, invest in their facilities, create quality products and contribute to their communities. Why? Because they believe in New York State and they truly want to do business here.

To validate this claim, two years ago, New York businesses were asked to shoulder a considerable burden of the State's economic crisis through increased taxes and fees, many of which were intended to be temporary. Because they are committed to this State, they made sacrifices, weathered the storm and are still here, still running, and most importantly, still want to stay.

I think this message resonates well at today's hearing, because we as a business community recognize that in order for New York State to regain its financial footing, we all need to work together. Albany does not create jobs; it creates a sound business climate that allows businesses to create jobs. These businesses are ready to work with you and your colleagues on creating a fair and effective business climate that truly ensures New York is Open for Business.

Governor Cuomo's 2014-15 Executive budget includes many recommendations that are important first steps towards lowering the costs of doing business and providing significant tax breaks for businesses. My testimony will focus on what we consider to be two stifling components of the Governor's proposal, that being the new definition of what is considered to be a "qualified New York manufacturer", and new geographic barriers put in place for tax incentives.

Upon first glance, the tax initiatives within the Governor's budget proposal look highly beneficial to manufacturers, including but not limited to corporate franchise tax reductions, the elimination of the 18-A assessment and property tax cuts. These incentives are all measures that our Manufacturers Alliance partners have advocated on behalf of for years. However, the new definitions and requirements that have been included would exclude the very businesses that are in need of help.

Under the proposal to reduce the corporate tax rate on upstate qualified New York manufacturers, a "qualified New York manufacturer" would now be defined as a taxpayer or combined group that is a manufacturer with either at least $10 million or 100% of its manufacturing property in New York State, or for those that do not have more than 50% of its business in manufacturing, they must have at least 2,500 manufacturing employees and $100 million in manufacturing property in-state.

As the State's largest and leading group advocating on manufacturers, I can tell you that this new definition not only eliminates the majority of manufacturers in New York State, but it fails to accurately reflect the true definition of the sector.

In 2010, our policy and research arm, the Manufacturers Research Institute of New York State, commissioned the Nelson A. Rockefeller Institute to create a decade glance of definitions, trends and benefits from New York State manufacturing. In this study: the following facts were captured:

1. Manufacturing in New York is a high value enterprise, with value added per dollar of final shipments 27 percent above the national average. This means products made in New York tend to generate relatively high levels of employee compensation and spinoff economic activity.
2. New York ranks sixth among the States in total manufacturing employment- within a national economy that boasts the largest manufacturing sector in the world.

3. Overall payrolls in the manufacturing sector are large because wages are high-at an average $57,145 statewide, far above positions in most other sectors.
4. And finally, the manufacturing sector in New York State tends to be small, with a study from 2009 capturing that in the 18,888 manufacturing establishments within New York State, the average facility had 25 employees.

Yes, that's correct; the average New York manufacturer has just 25 employees yet generates a significant economic impact. Despite what some may consider the smaller size, their large payroll, community supporting jobs, out of state revenue generation and capital investments make them worth every possible incentive to make it easier to do what they do best: generate revenue and sustain good quality, high paying jobs.

The recommended parameters around a "qualified New York manufacturer" will eliminate nearly all of these manufacturers from those who would receive these benefits. With that, we highly encourage the Legislature to reconsider this new definition of a New York manufacturer, to ensure a level playing field and allow the businesses who need it most and will provide the best return on investment will receive the tax breaks proposed.

Another area of concern within this proposal is the definition of upstate as outside the MTA region. As proponents of increasing commerce and business, we have always found it challenging and counterproductive to enact geographic barriers for policy and tax break incentives. A perfect example of this would be our long time advocacy calling for a statewide economic development power program. Despite the majority of our membership being upstate, we argued that a sector specific long term energy plan would benefit the economic development statewide, that of which our proposal was accepted and finally signed into Law.

Implementation of this proposal is challenging on two fronts: one, for the hard working and highly populated manufacturers that reside and manufacture products within that region, but also denying these tax breaks for any upstate manufacturer who does business with companies within the MTA region.

Yet again, a definition of this caliber is going to significantly cut out a number of applicable manufacturers. In fact, according to our 2010 study, New York City alone is the single largest center of manufacturing in the State, with more than 81,000 jobs and $4.2 billion dollars in payroll form 2009 alone. To make this definition to exclude anyone within the MTA region is going to impact a large portion of our State's manufacturers, whom all deal with the same high taxes and challenging business climate as their sector partners in the rest of the State.

Additionally, to put a restriction on the tax exemption for manufacturers located outside of the MTA region, but whom conduct business within that region is another example of counter productivity. The State should never be in the business of discouraging their manufacturers from conducting any sort of business that generates revenue, especially within their own State. With that, we highly recommend a serious analysis and reconsideration of the proposed geographic definition, for both businesses located inside and outside the MTA region.

With that said, there are clearly many positives within the Governor's budget proposal, that, if coupled with better and clearer definitions of a true manufacturer, would be of great benefit for not only the State manufacturing sector, but for the economic stability and growth of our State as a whole.

For example, MACNY urges you to continue the reductions of the corporate franchise tax rate to manufacturers in the upcoming year's budget, and ensure the tax rate is eliminated for applicable manufacturing corporations. In doing so, New York State will be making a solid investment in its economic future by proving the manufacturing sector with incentive to continue doing business, and just as important, grow and expand in New York State. Additionally, with the manufacturing sectors job multiplier effect being as strong as it is, this incentive will increase related jobs and overall investment in the New York State economy. Most importantly, it will be sending a strong message: that New York State values its current manufacturing community, and is ready to step up as a major competitor on the international playing field for retaining talent and manufacturing in our state.

Another proposal is the 18-A assessment (otherwise known as the Temporary State Energy and Utility Service Conservation Assessment), an issue for which MACNY has long advocated. We strongly support the Governor's proposal to eliminate 18-A for industrial users. In addition, we respectfully request that you go further than the Governor's proposal to accelerate the phase-out of the assessment for all other users and also eliminate this regressive tax as soon as possible.

Affordable energy is a critical component to any thriving economy, and a necessity for New York businesses and residents alike. High energy costs continue to hinder growth for many of our economy-boosting sectors, and an extension to this fee will cost all energy consumers (businesses, governments, schools, non-profits and residences) in the State upwards of $500 million annually. It is a regressive tax that was originally intended to be a temporary measure, and was described as such to New York State taxpayers when it was adopted. Your support in ending this tax hike on our businesses is also greatly appreciated by our State manufacturing community.

As you are hearing today, there are multitudes of ways that our state's business community and residents feel that New York State can bolster economic development.

What the business community, the manufacturing sector in particular, needs is reassurance from the State Legislature and the Administration that they truly are valued in our great State of New York. As we continue to be the backbone of our state's economy, it is critical that you enact meaningful tax reform for our manufacturers and businesses so they may retain and create jobs, expand their markets and continue to operate for generations to come. With that, I believe there is great potential for New York to regain its place in the global economy and truly be open for business.

Thank you, as always for your time and your commitment to New York State.