

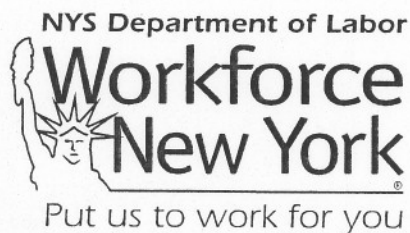
New York State Department of Labor

Testimony to the United States
Senate Committee on Finance

R E V I E W O F T A X
E X T E N D E R S

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George E. Pataki, Governor

Linda Angello, Commissioner

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My name is Dr. Hy L. Dubowsky and I direct economic development services for the New York State Department of Labor. Mr. Chairman and members of the Committee, on behalf of New York State Governor George E. Pataki and New York State Department of Labor Commissioner Linda Angello, I want to thank you for providing this opportunity to submit testimony regarding a "Review of Tax Extenders." My testimony will be limited to the Work Opportunity and Welfare-to-Work tax credits (WOTCMtW).

Since their inception, the Work Opportunity and Welfare-to-Work tax credit programs have been an integral part of New York's workforce development strategy. They are widely used to encourage the hiring of individuals with barriers to employment by providing an employment-based tax incentive that effectively lowers the cost of labor. The credits enable employers to partially offset the personnel transaction costs typically associated with recruiting, hiring and training a new employee. The credits, over the long-term, actually help employers to overcome their anxieties about hiring people with barriers to employment, and help to modify the stereotypical images associated with such individuals.

In tight labor markets, employers may be apt to ease their hiring standards. However, when the market is flush with workers, they will not – and those most in need of a job will be unable to compete in the marketplace. By using the credits to reduce the costs of labor, employers are more likely to continue to hire from these applicant pools,

gaining comfort with each successful hire of an individual with barriers to employment.

New York State is proud of our efforts to administer the tax credit programs with a high degree of customer service. Our knowledgeable staff and quick responsiveness benefits both businesses and providers.

Another characteristic of our program is our consistency in making determinations. By applying uniform, constant standards we have earned the appreciation of the companies and providers that work with us. This, combined with our excellent customer service, encourages participation and has enabled our state to maximize the usage of all the tax credit programs.

Under Governor Pataki, the WOTC program has certified more than 155,000 individuals with barriers to employment. Those individuals were assisted in finding private sector jobs, the first step towards transitioning from dependence to independence.

According to the NYS Department of Labor, more than 65 percent of those individuals were public assistance or food stamp recipients, a statistic which mirrors that of the nation's. According to the US Department of Labor (USDOL), approximately 2,523,000 individuals have been certified nationwide, the majority of which, 66 percent, are former TANF and food stamp recipients. The remaining third

are vocational rehabilitation consumers, ex-offenders, Supplemental Security Income (SSI) recipients, low-income veterans and youth living in federally-designated empowerment zones or renewal communities. As these people transition into jobs, they start on a new road, contributing to the economic well-being of their communities and the nation.

The benefits of the WOTC program exceed the costs. In a 2003 report, submitted to former Representative Houghton, the NYS Department of Labor concluded that WOTC benefits surpassed costs by more than \$200 million. Public spending was reduced, as hard-to-employ individuals transitioned into private-sector jobs, earned wages and lessened their reliance on government supported programs. Such budgetary savings, whether they are due to TANF case closings or reduced recidivism rates, generate recurring economic benefits. Moreover, economic gains also are derived from the inclusion of the new payroll, which, unlike entitlement transfer payments, is included in calculations of gross domestic product.

Tax credits are also used extensively by the not-for-profit workforce development community. This community is charged with developing and placing a population that is hardest to serve. This population requires the development of training and family support systems before job placement efforts can even start. Many tax-credit-eligible individuals have never worked before or have been out of the workforce for a long time. The credits offer job developers and counselors,

working in everything from small neighborhood centers to sophisticated training facilities, a "carrot" to enhance their chances of placing these hard-to-employ individuals.

Within the last month, I conducted several training workshops in New York City on *Using Employment Tax Credits*. Approximately 200 people attended, including representatives from: the United Way; Council of Jewish Organizations; St. Nicholas Neighborhood Preservation Corporation; Federation Employment & Guidance Services; Goodwill Industries; and Center for Employment Opportunities. Their staffs serve people across the entire range of job seekers with barriers to employment, including TANF and food stamp recipients, the hearing impaired, physically challenged, blind, mentally impaired and economically disadvantaged. These partners use these programs every day.

For example, the Center for Employment Opportunities (CEO) in New York City serves more than 2,000 parolees a year and makes approximately 800 placements each year. They work with more than 150 private sector companies, and use the WOTC as a major incentive in attracting companies to work with them.

Trine Rolled Moulding Corporation, which produces moldings for high-end department stores, has enjoyed a working relationship with CEO for 18 years. In the last two years alone, the firm has hired 20 CEO participants. James M.

Lange, the company's director of operations, stated, "Trine has benefited from the tax credits and payments to pay for hourly wages for employees. These credits have saved our company many thousands of dollars, and helped to provide us with some great employees."

Our ability to build a network of business and not-for-profit provider partners was greatly weakened by the gap between the WOTC/WtW programs' expiration on December 31, 2003 and reauthorization in October 2004. In New York, as in other states, the uncertainty surrounding program re-authorization virtually brought our efforts to a halt. During the nine-month hiatus, New York's certification activity dropped by 54 percent from the prior year, an experience that was mirrored nationwide. Acceptance of government programs depends on trust and a degree of certainty to justify integrating the programs into long-term organizational development and marketing plans. The lack of certainty that the credits will be extended beyond the December 31, 2005 expiration date may have negative consequences. It may discourage businesses, providers and state tax credit operations from investing in application and processing system improvements, computer and database upgrades, staff development and field structures. More importantly, it may constrain our joint efforts to persuade businesses to commit to behavioral changes when hiring workers, and to include individuals with barriers to employment into their workforce.

Funding for the WOTC/WtW programs has remained constant for a number of years. The original federal support level of approximately \$20 million, for support of 53 State

Workforce Agency operations, has shrunk to \$17.3 million this year. According to USDOL, nearly a quarter of state operations receive less than \$65,000 for direct support of WOTC/WtW.

New York State has learned to do more with less. We were the first state in the nation to offer electronic filing in addition to paper. Large businesses and consultants are provided certification data on CD-ROM in a database that is easy for them to use. New York has also promoted the tax credit programs through the state's economic development team. We have found that presenting employment tax credits as part of a full package of incentives makes them more attractive to employers and more effective in the long run. Our customers also appreciate the availability of a toll-free number, 1-800-HIRE-992, which serves as a single point of entry for a number of agency services. We are able to offer our customers excellent service and personal attention, and still keep our administrative costs low.

It is possible that next year even fewer funds will be allocated to support WOTC/WtW. Without adequate support, state agencies may not be able to process applications nor service their business, provider and local government partners in an effective and efficient manner. Backlogs will grow, exacerbated by our anticipated response to the provisions of the IRS TANF Revenue Ruling (IRS 2003-112), which clearly defined several WOTC eligibility categories. The ruling will effectively require state agencies to postpone reviewing current applications while staff is assigned to re-review applications denied in error due to incorrect interpretations of statutory

language regarding the TANF and food stamp target groups. States across the country are still processing 2004 application requests that sat idle during the nine-month hiatus. Uncertainty about funding may dissuade states from developing long-term plans and committing resources to address the backlogs.

We also face new challenges associated with improving internal WOTC/WtW systems. As oversight over the activities of the financial and accounting sectors grows, driven largely by the passage of the Sarbanes-Oxley Act of 2002, there will be a ripple effect flowing into the public sector. To respond to the demands of their national business customers for real-time information quality controls, state agencies need to develop internal control mechanisms that ensure we administer the tax credit programs in a manner consistent with federal statutes and USDOL program guidance. To that end, resources are needed to support the development and implementation of E-WOTC, a paperless application, certification and operations management tool designed to streamline the process, eliminate paperwork and provide better database management. New York State was proud to chair a joint federal-state workgroup, which prepared a draft report titled, *Phase II Report: Workgroup Recommendations for State Workforce Agency Integration of Electronic 8850*. This report will be submitted to the Assistant Secretary of Labor for Employment and Training. It provides a framework for E-WOTC to guide the states and USDOL in developing a paperless process that addresses the evolving human resource needs of the business community and enhances the ability of the SWAs to strengthen their system capabilities.

In New York, since August 1997, Governor Pataki's' welfare-to-work programs have lowered TANF caseloads by 48.5 percent, or more than 500,000 individuals. The joint efforts of the New York State Department of Labor, local social services districts, provider agencies and our business partners enabled many of these individuals to use WOTC/WtW credits in their job search efforts. Yet there are many more low-income, hard-to-employ individuals who are currently out of reach of WOTC/WtW. Those released from prison and absentee fathers who must live up to their commitments need a helping hand. Legislation introduced by Senators Santorum and Baucus, which cuts red tape by combining the WOTC and WtW tax credits, raises the age limit for the food stamp and high-risk youth categories from 24 to 39, and eliminates the onerous burden of verifying income for recently released felons, is the next logical step for this program.

WOTC and WtW, often lost in the shadow of other larger and well-funded workforce development and employment programs, merits your attention. We support re-authorization, the program enhancements offered by Senators Santorum and Baucus and assurances that adequate funding will be made available for tax credit operations in the states.

Again, on behalf of Governor George E. Pataki and Commissioner Linda Angello, thank you for this opportunity to provide testimony in support of these valuable programs.