

Balancing New York State's 2009-2010 Budget in an Economically Sensible Manner

January 2009

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The Fiscal Policy Institute (FPI) wishes to thank the Ford and Charles Stewart Mott Foundations for their support of the state fiscal analysis work that makes this briefing book and the briefings at which it is being presented possible. FPI also wishes to thank the many organizations, including other foundations, labor unions, faith-based organizations, human services providers and advocates, and community and good government groups that support FPI's work and/or disseminate the results of FPI's analysis. FPI extends a special note of appreciation to CSEA for printing this briefing book.

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January 2009

Table of Contents

I. Introduction and Policy Recommendations	1
II. The Economic Context.....	9
III. The Fiscal Context	37
IV. State-Local Fiscal Relations.....	49
V. Economic Security	59

I. Introduction and Recommendations

Tax revenues have dropped and budget gaps have grown.

- The fallout from the global financial crisis has caused a dramatic decline in projected state revenues, driving extraordinary increases in the state's projected budget gaps.
- Governor Paterson's projections of state budget gaps: \$1.7B in 2008-09, \$13.7 in 2009-10, \$17.1B in 2010-11, \$18.5.2B in 2011-12.
- NYS spending has grown due to important new commitments **that were enacted without new revenues**. Examples: takeover of counties' Medicaid costs above 3% and all of counties' share of Family Health Plus; statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit; establishment and expansion of STAR and Middle Class STAR, and transportation and higher ed investments. (Note: In the rest of the budget as a whole, from 2004 to 2008, spending has increased by an average of 2.88% per year.)
- NYS went on a tax-cutting binge in the mid- & late-90s, enacting round after round of multi-year back-loaded tax cuts. These cuts (counting STAR as a tax cut) are reducing state revenues by about \$20 Billion this year.

What happens to federal and state budgets during recessions? And, What should happen?

- During recessions the federal government tries to stimulate the economy (i.e., “prime the pump”) by increasing spending and cutting taxes. This requires deficit spending.
- But state governments have to balance their budgets in both good times and bad. So, to balance their budgets during recessions, states almost always end up cutting spending and/or increasing taxes, thus putting more drag on the economy rather than less.
- Since the federal government is responsible for overall macro-economic management, it makes sense for the federal government to provide fiscal relief to the states during recessions to reduce the amount of budget cutting and tax increasing necessary at the state level.
- If the federal government doesn’t help the states during recessions, then state budget-balancing actions will cancel out a greater portion of the positive impact of federal stimulus efforts.

How can states balance their budgets during recessions without making the situation worse?

- Increased federal aid to the states during recessions is extremely important, but what can states do to help themselves? Economists suggest that states set aside funds in good times and use those funds to help balance their budgets in bad times. These are called “rainy day” funds.
- Most states, including New York, have “rainy day” funds but they usually do not set aside enough money in good times to have big enough balances to really help in bad times. And Governors are surprisingly reluctant to use the balances in the “rainy day” funds that they do have – always wanting to save them for a rainier day.
- In choosing among real budget cuts and real tax increases, the least economically damaging option during a recession is to raise taxes on the portion of household incomes over some relatively high level such as \$250,000 or \$500,000. This is the portion of income that is least likely to be spent so taxing this income takes less demand out of the economy than other budget balancing alternatives.

In 2009, New York State clearly needs a multi-pronged approach to balancing its budget.

- To close any remaining 2008-09 shortfall, NYS should use reserves including some of the \$1B in the Tax Stabilization Reserve Fund.
- Pres.-elect Obama has included a significant amount of state fiscal relief in his proposed economic recovery package. It is important for NYS's Congressional delegation to fight any efforts to reduce this part of Pres.-elect Obama's plan.
- Savings can be realized from contracting-in engineering and other professional services; using NYS's sizable pooled purchasing power to get better prices on prescription drugs; an ending the wasteful and failed Empire Zones program.
- Close the bottle bill loophole so the state receives the deposits from unreturned bottles rather than the industry keeping that money.
- Increase top tax rates on the highest-income New Yorkers as was done in 2003—to raise \$2B to \$7B depending on levels and rates.

The Big Picture – Governor’s budget calls for “shared sacrifice” by everyone except the top 5%.

- The biggest cuts are in school aid and Medicaid but there are cuts in virtually every part of the budget.
- State workers and employees of human services nonprofits are asked to forego wage increases. State employees are asked to accept a payroll “lag” and further workforce reductions - - 521 layoffs and a total reduction in force of 3,108. But Governor says layoffs go to nearly 5,000 without “concessions.”
- Higher education tuition increases and health insurance assessments will put a real squeeze on middle income families. Dramatic increase in health insurance premiums for retired state workers.
- Revenue increases are mostly fees or regressive consumption taxes.
- There are so many proposals that hurt people and the economy in the Executive Budget that even with aid from the federal government and a reasonable high-end income tax increase, the Legislature will still not be able to undo them all. Important to push for as much relief as possible.

Why not tax fairness, particularly given heightened income concentration at the top?

- Richest 1% of Americans now get nearly a quarter of all income—the highest share since 1928.
- NYS has widest gap between rich and poor and between the rich and the middle 20% of the income distribution.
- In NYS, top 1% got 29% of all income in 2006—more than two-and-a-half times combined income of the bottom half. In NYC, top 1% income share is 37%.
- While NYS's income tax is mildly progressive, the overall state-local tax system is regressive because of the heavy local reliance on regressive sales and property taxes.
- 14 states now have higher top income bracket than NYS.
- No evidence that moderate tax rate increases at the top induce out-migration.

II. The Economic Context

The Economic Context

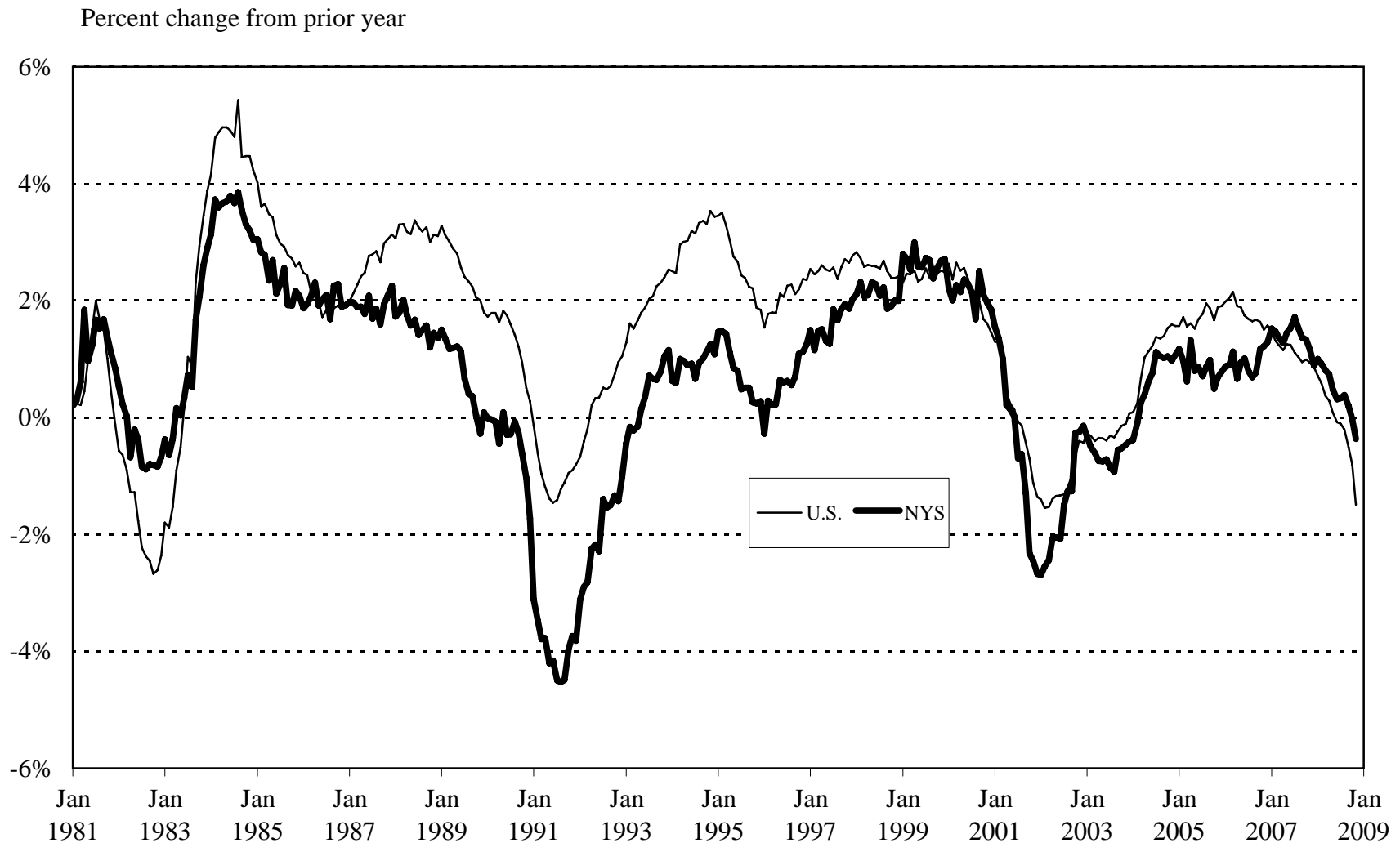
The nation is reeling from an unprecedented economic slump brought on by the bursting of the housing bubble and a related financial market crash. The first year of the recession saw the biggest one-year job decline since 1945. If the recession continues past April—very likely at this point—it will become the longest recession since the 1930s.

For the first time in 3 decades, New York lagged the nation in entering the recession. Since New York's economy peaked in August 2008, job losses have begun to mount. By the end of 2008, unemployment claims were 40% above the prior year. The finance sector, which has become increasingly important in New York in recent years, will permanently downsize.

In addition to the housing and finance sector crises, consumer spending has collapsed in the wake of the destruction of trillions in home equity and retirement savings. A substantial national economic recovery/stimulus is needed to resurrect economic growth. To make it sustainable, broader economic policy changes will be needed.

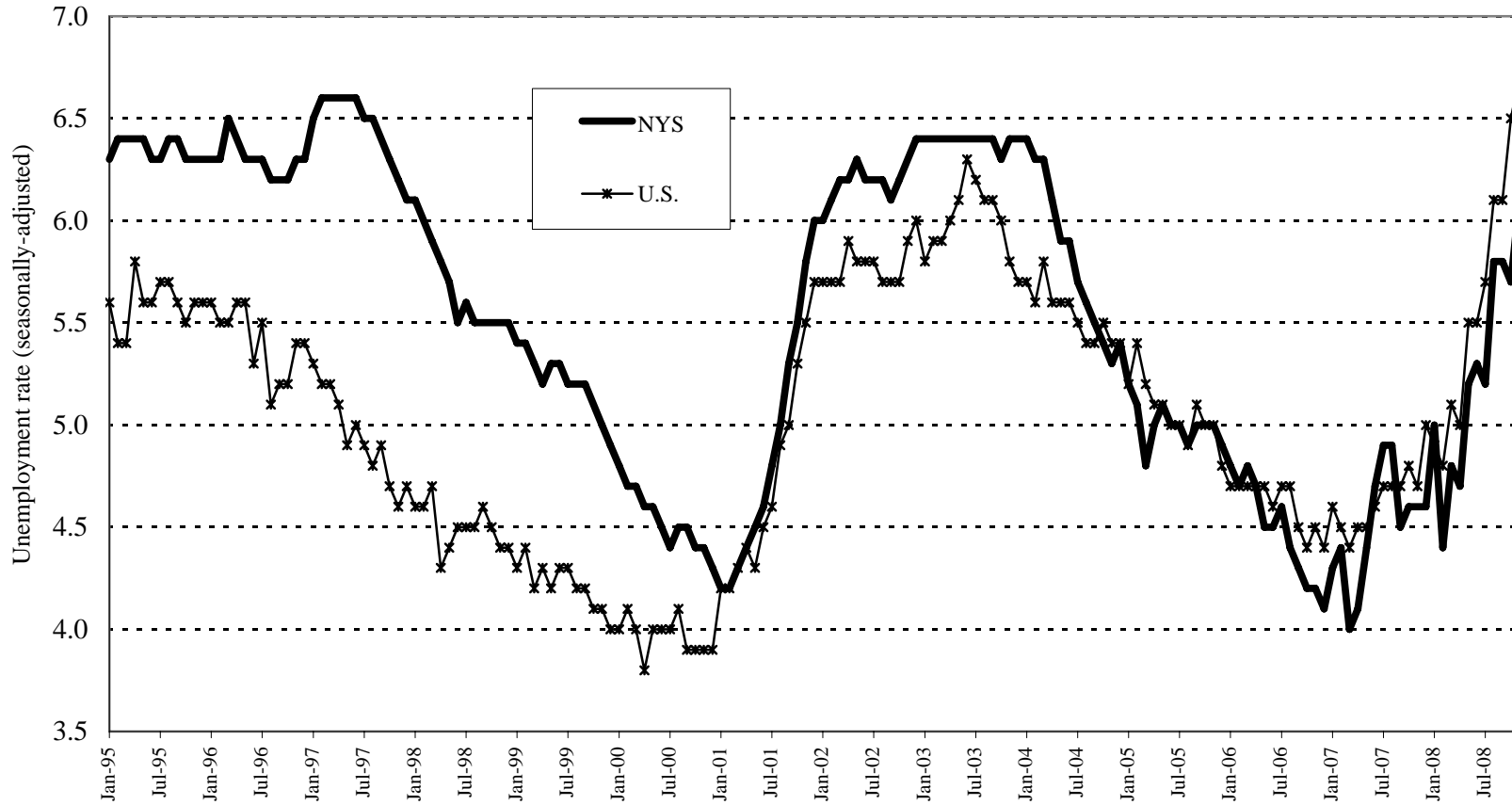
This section of the budget briefing book describes key parameters of the current economy and the implications for New York's budget outlook.

Heading into the current recession, U.S. job growth started slowing much sooner than New York's job growth.



Source: BLS CES data.

New York and U.S. unemployment rates have been rising over the past year.



Source: BLS Current Population Survey data

While the 2001-to-2003 recession and downturn was milder for the U.S. than for New York, the first year of the current recession has caused greater job loss in the U.S. than in NY.

Employment (in thousands)	U.S.	NYS	NYC
<i>The early 2000s recession and downturn</i>			
March 2001 (U.S. peak month)	132,500	8,679	3,740
August 2003 (end of employment decline) #	129,822	8,392	3,512
<i>The current recession beginning in December 2007</i>			
December 2007 (U.S. peak month)	138,078	8,781	3,765
August 2008 (NYS and NYC peak month)	137,423	8,776	3,777
November 2008 * (latest month for NYS and NYC data)	136,013	8,737	3,751
December 2008 * (latest month for U.S. data)	135,489		
March 2001-August 2003 (the early 2000s recession and downturn)	-2,678	-287	-228
August 2003-December 2007 (recovery and expansion period)	8,256	389	253
December 2007-November 2008 (current recession to latest month for NY data)	-2,065	-44	-14
December 2007-December 2008 (current recession to latest month for U.S. data)	-2,589		
% change			
March 01-August 2003	-2.0%	-3.3%	-6.1%
August 2003-December 2007	6.4%	4.6%	7.2%
December 2007-November 2008	-1.5%	-0.5%	-0.4%
December 2007-December 2008	-1.9%		
August 2008-November 2008 (NY peak month to latest month for NY data)	-1,410	-39	-26
August 2008-November 2008	-1.0%	-0.4%	-0.7%

All data are seasonally adjusted nonagricultural employment totals.

The 2001 recession officially ended in November 2001; however, employment continued declining until August 2003.

* U.S. data for November and December 2008 from the BLS Employment Situation report, January 9, 2009.

Source: BLS for U.S. and NYS data; NYS Department of Labor for NYC data, seasonal adjustment of NYC data by Fiscal Policy Institute.

How long and how deep will this structural recession be?

- Three sources of structural economic decline: broken financial system, collapsing housing market, and the wealth destruction that collapsed consumer spending.
- Recession officially started in December 2007.
- Unemployment—in NY and U.S.—could reach 8 or 9 percent by the end of 2009.
- GDP 4th quarter decline could be 5 percent, and GDP is likely to contract further in the first 2-3 quarters of 2009.
- Only dramatic national actions will prevent this from being an “L” shaped recession.

Historic financial meltdown and global recession.

- De-regulation and other factors led to an excessive degree of risk and leverage during a housing bubble inflated by questionable lending.
- Utter failure of faith in unfettered markets that had dominated the regulatory system and the broader economic context.
- When the housing bubble burst, mortgage defaults exposed massive systemic risk created by financial institutions.
- Huge overhang of credit default swaps contributed to bank solvency crisis. Institutions “too big to fail” triggered bailouts, but also a credit freeze.
- But we also had a “real economy” where there was no wage growth and excessive reliance on debt.

The galactic cost of finance market rescue.

- On top of various bailouts (Bear Stearns, Fannie Mae and Freddie Mac), with late September's financial meltdown, the Federal Reserve, the Treasury, the Congress, and the President threw TRILLIONS of dollars of taxpayer money at the financial markets in a wild and desperate attempt to protect the major banks.
- Never before had such largess been lavished so quickly with so little strategic thought and with such poor results. There was nothing done to address the mortgage foreclosure crisis—one of the root causes of the meltdown.
- In a span of 9 months, the U.S. government committed \$7.8 TRILLION in taxpayer dollars for a variety of capital investments, low-interest loans and government guarantees.

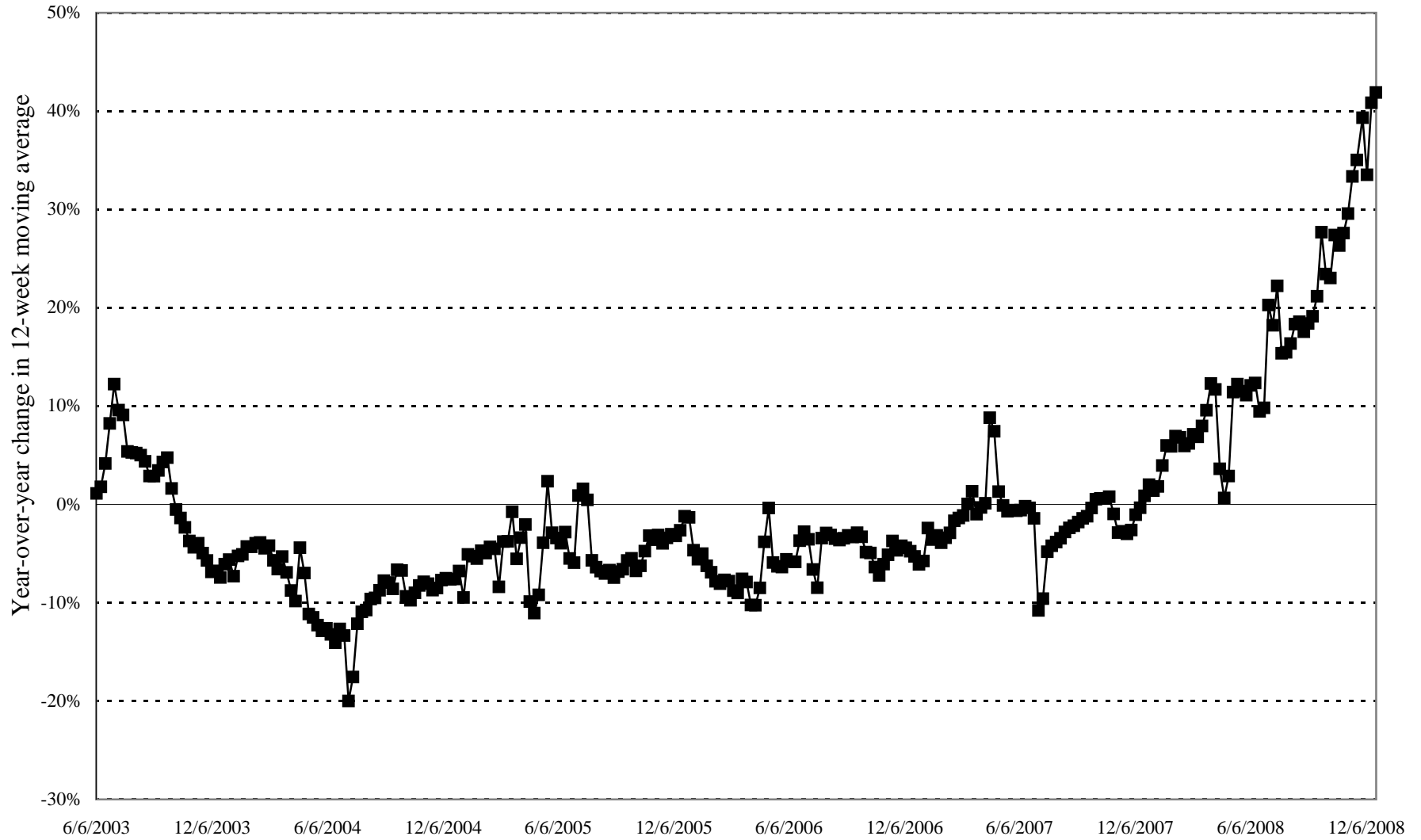
Trillions in home equity and retirement savings destroyed.

- For the 1st time since WWII, total homeowners' debt exceeds equity.
- 2-3 million homeowners are expected to default in 2008.
- Congressman George Miller: "Americans' retirement security may be one of the greatest casualties of this financial crisis."
- The stock market's slide has wiped out \$3 trillion in retirement savings—about 30% of the total.
- Massive wealth reduction will dampen consumer spending for a while.
- The shift to 401(k) defined contribution plans exposed millions of workers to stock market losses and heightened retirement insecurity.

New York lagged the nation in entering the recession, but is catching up quickly.

- The Budget Division estimates that the NYS economy peaked in August, eight months after the nation as a whole.
- NYS lost nearly 50,000 private sector jobs in 3 months from August to November.
- Both high wage and low wage jobs are being lost.
- Unemployment claims are up by 40% statewide and by 60% in NYC.
- The unemployment rate is headed toward 8 or 9 percent by year-end.
- Black and Hispanic unemployment is 1.5-2 times greater than overall.
- Many low- and moderate-income people will suffer from foreclosures, job loss, and wages that fail to keep up with inflation, and service cuts. Social safety net is tattered.

NYS initial unemployment claims are rising sharply.



While job growth in 2008 slowed more in most upstate areas than downstate, upstate fared better than the U.S. overall.

	Non-agricultural Employment	Annual Average Absolute Change					Annual Average Percent Change				
	Jan-Nov 2008	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
United States	137,355,273	1,436,000	2,268,000	2,383,000	1,537,000	-267,727	1.1%	1.7%	1.8%	1.1%	-0.2%
New York State	8,760,273	55,000	72,200	81,400	119,200	22,673	0.7%	0.9%	1.0%	1.4%	0.3%
New York City	3,765,209	18,200	52,900	64,000	78,800	20,209	0.5%	1.5%	1.8%	2.1%	0.5%
Eastern New York	2,739,518	29,300	12,833	15,942	27,033	6,043	1.1%	0.5%	0.6%	1.0%	0.2%
Nassau-Suffolk, NY Metropolitan Division	1,271,909	11,400	5,800	8,000	15,600	3,809	0.9%	0.5%	0.6%	1.2%	0.3%
Putnam-Rockland-Westchester	582,564	8,500	2,500	3,300	10,000	3,064	1.5%	0.4%	0.6%	1.8%	0.5%
Albany-Schenectady-Troy, NY MSA	448,055	4,400	2,000	1,300	1,400	-245	1.0%	0.5%	0.3%	0.3%	-0.1%
Glen Falls, NY MSA	54,736	1,400	200	600	200	-64	2.7%	0.4%	1.1%	0.4%	-0.1%
Kingston, NY MSA	64,582	-800	-200	800	-200	82	-1.2%	-0.3%	1.3%	-0.3%	0.1%
Poughkeepsie-Newburgh-Middletown, NY MSA	255,100	4,000	2,200	1,600	-500	100	1.6%	0.9%	0.6%	-0.2%	0.0%
Columbia County	21,227	500	0	200	-100	-273	2.4%	0.0%	0.9%	-0.5%	-1.3%
Greene County	14,836	-500	300	300	300	-264	-3.4%	2.1%	2.1%	2.0%	-1.7%
Sullivan County	26,509	400	100	-100	200	-91	1.5%	0.4%	-0.4%	0.8%	-0.3%
Western and Northern New York	2,257,327	8,983	6,025	1,683	13,425	-1,881	0.4%	0.3%	0.1%	0.6%	-0.1%
W&N NY Metropolitan Areas	1,695,109	6,392	4,483	-1,283	8,392	-2,283	0.4%	0.3%	-0.1%	0.5%	-0.1%
Binghamton, NY MSA	114,327	-100	-300	1,000	1,200	-273	-0.1%	-0.3%	0.9%	1.1%	-0.2%
Buffalo-Niagara Falls, NY MSA	547,973	2,600	-1,300	-700	900	973	0.5%	-0.2%	-0.1%	0.2%	0.2%
Ithaca, NY MSA	63,536	900	500	800	600	136	1.5%	0.8%	1.3%	1.0%	0.2%
Rochester, NY MSA	511,818	1,700	3,600	-2,000	2,200	-3,482	0.3%	0.7%	-0.4%	0.4%	-0.7%
Syracuse, NY MSA	324,209	1,000	1,700	0	2,500	609	0.3%	0.5%	0.0%	0.8%	0.2%
Utica-Rome, NY MSA	133,245	400	200	-300	900	-255	0.3%	0.2%	-0.2%	0.7%	-0.2%

	Non-agricultural Employment	Annual Average Absolute Change					Annual Average Percent Change				
	Jan-Nov 2008	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
<i>W & N NY Non-metropolitan areas</i>	562,218	2,592	1,542	2,967	5,033	402	0.5%	0.3%	0.5%	0.9%	0.1%
Allegany County	17,191	300	0	-100	200	-9	1.8%	0.0%	-0.6%	1.2%	-0.1%
Cattaraugus County	33,927	100	-400	-300	0	27	0.3%	-1.2%	-0.9%	0.0%	0.1%
Cayuga County	26,573	500	-100	300	300	-127	1.9%	-0.4%	1.1%	1.1%	-0.5%
Chautauqua County	57,327	500	0	0	500	-173	0.9%	0.0%	0.0%	0.9%	-0.3%
Chemung County	41,309	-600	0	500	700	109	-1.5%	0.0%	1.3%	1.7%	0.3%
Chenango County	17,036	0	100	300	100	-164	0.0%	0.6%	1.8%	0.6%	-1.0%
Clinton County	36,118	0	100	-100	100	18	0.0%	0.3%	-0.3%	0.3%	0.1%
Cortland County	18,482	-400	-300	-200	100	-18	-2.1%	-1.6%	-1.1%	0.5%	-0.1%
Delaware County	18,100	300	100	0	0	-200	1.7%	0.5%	0.0%	0.0%	-1.1%
Essex County	15,473	300	0	-200	100	73	0.0%	0.0%	0.0%	0.0%	0.0%
Franklin County	19,955	100	100	100	400	255	0.5%	0.5%	0.5%	2.1%	1.3%
Fulton County	18,855	100	-100	200	300	-45	0.5%	-0.5%	1.1%	1.6%	-0.2%
Genesee County	23,282	-100	-100	0	200	82	-0.4%	-0.4%	0.0%	0.9%	0.4%
Hamilton County	2,191	100	0	0	100	-9	5.0%	0.0%	0.0%	4.8%	-0.4%
Jefferson County	43,364	300	700	1,300	700	264	0.7%	1.7%	3.2%	1.7%	0.6%
Lewis County	6,891	100	100	200	-100	91	1.5%	1.5%	3.0%	-1.4%	1.3%
Montgomery County	19,909	400	500	0	-200	109	2.1%	2.6%	0.0%	-1.0%	0.6%
Otsego County	26,718	500	200	0	100	18	1.9%	0.8%	0.0%	0.4%	0.1%
St. Lawrence County	41,991	-100	100	400	400	-109	-0.2%	0.2%	1.0%	1.0%	-0.3%
Schuyler County	5,009	100	0	100	100	-91	2.1%	0.0%	2.0%	2.0%	-1.8%
Seneca County	11,518	100	0	0	0	-182	0.9%	0.0%	0.0%	0.0%	-1.6%
Steuben County	39,209	-200	400	100	600	309	-0.5%	1.1%	0.3%	1.6%	0.8%
Wyoming County	14,473	0	200	500	100	73	0.0%	1.5%	3.6%	0.7%	0.5%
Yates County	7,318	300	-100	-100	300	-82	0.0%	0.0%	0.0%	0.0%	0.0%

Source: New York State Department of Labor. 2008 data projected based on 11 months.

Over the last year, unemployment increased by more than one-third in New York State, with faster increases in the New York City suburbs and in Upstate areas than in New York City.

	Unemployed (000s)			Unemployed % increase	Unemployment rate Nov. 2008
	Nov. 2008	Nov. 2007	change		
New York State	567.3	422.0	145.3	34.4%	5.9
New York City	243.6	193.1	50.5	26.2%	6.2
Eastern New York	170.9	120.4	50.5	41.9%	
Nassau-Suffolk, NY Metropolitan Division	78.0	54.5	23.5	43.1%	5.2
Putnam-Rockland-Westchester	35.9	25.0	10.9	43.6%	5.1
Albany-Schenectady-Troy, NY MSA	23.4	17.2	6.2	36.0%	5.2
Glen Falls, NY MSA	4.2	2.8	1.4	50.0%	6.4
Kingston, NY MSA	5.2	3.9	1.3	33.3%	5.7
Poughkeepsie-Newburgh-Middletown, NY MSA	18.4	12.9	5.5	42.6%	5.6
Columbia County	1.6	1.2	0.4	33.3%	5.1
Greene County	1.6	1.1	0.5	45.5%	6.7
Sullivan County	2.6	1.8	0.8	44.4%	7.4
Western and Northern New York	152.8	107.9	44.9	41.6%	
W&N NY Metropolitan Areas	105.5	75.4	30.1	39.9%	
Binghamton, NY MSA	7.4	5.1	2.3	45.1%	6.0
Buffalo-Niagara Falls, NY MSA	36.2	26.3	9.9	37.6%	6.2
Ithaca, NY MSA	2.4	1.8	0.6	33.3%	4.3
Rochester, NY MSA	31.2	22.9	8.3	36.2%	5.9
Syracuse, NY MSA	19.9	13.4	6.5	48.5%	6.0
Utica-Rome, NY MSA	8.4	5.9	2.5	42.4%	6.0
W & N NY Non-metropolitan areas	47.3	32.5	14.8	45.5%	5.1-8.4

Source: NYS Department of Labor.

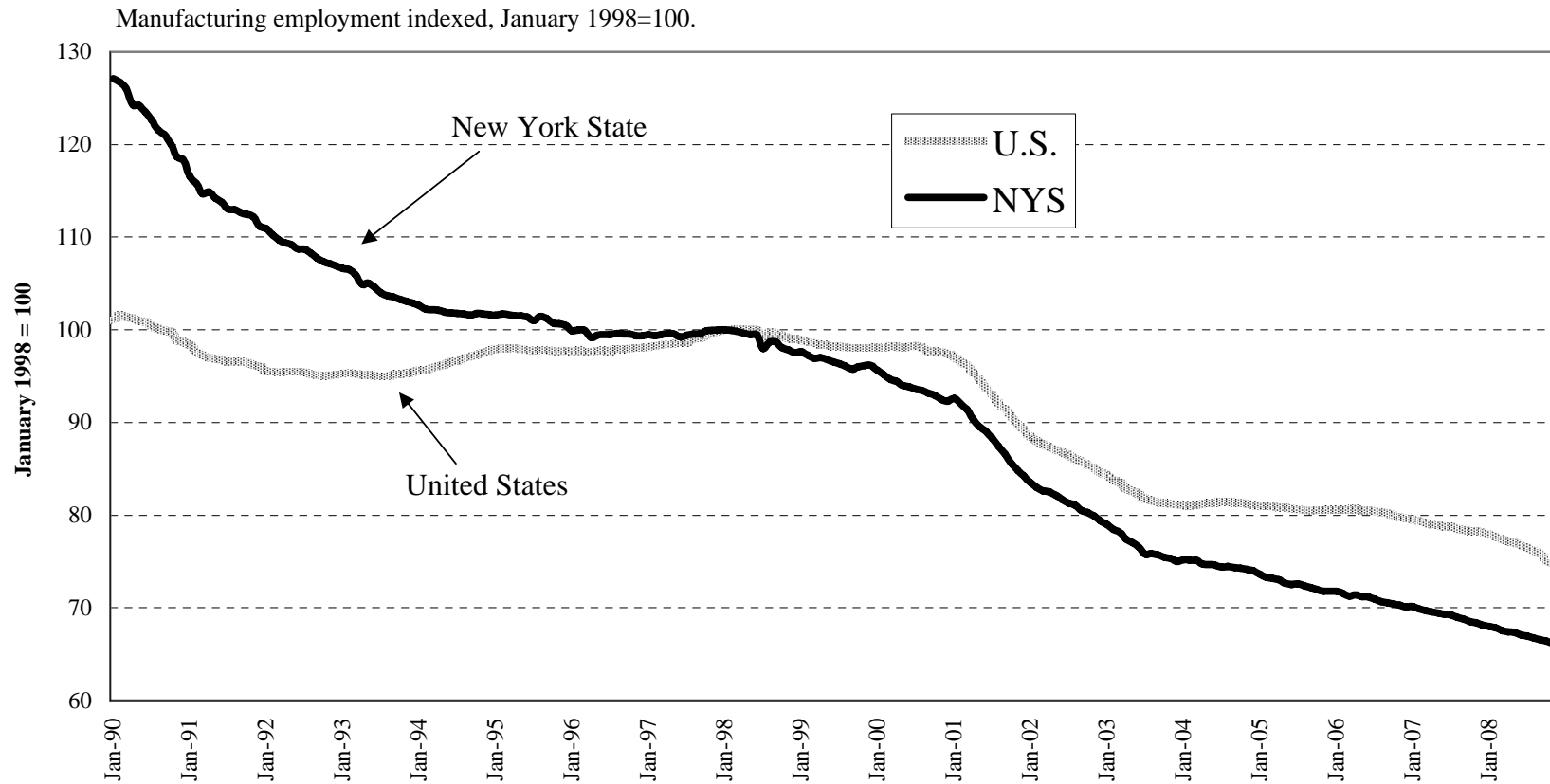
Finance, administrative support and retail lead New York's job decline; only in finance does New York's decline outpace the nation's.

NEW YORK STATE

	Employment level	Employment change					Percent change				NYS	U.S.
	(seasonally adjusted)	Dec to Dec.					Dec to Dec.				% change	% change
	Nov. 2008	2003-2004	2004-2005	2005-2006	2006-2007	Dec. 2007- Nov. 2008	2003- 2004	2004- 2005	2005- 2006	2006- 2007	Dec. 2007- Nov. 2008	Dec. 2007- Nov. 2008
Total Nonfarm	8,737,910	89,799	66,700	111,001	77,389	-18,976	1.1%	0.8%	1.3%	0.9%	-0.2%	-1.5%
Construction	349,273	8,785	1,625	16,235	7,088	-1,659	2.8%	0.5%	5.0%	2.1%	-0.5%	-7.1%
Manufacturing	529,940	-7,774	-17,846	-13,020	-16,828	-14,703	-1.3%	-3.0%	-2.3%	-3.0%	-2.7%	-4.7%
Wholesale Trade	351,996	1,550	-177	1,316	-1,517	-2,107	0.4%	0.0%	0.4%	-0.4%	-0.6%	-2.2%
Retail Trade	885,052	17,531	4,338	9,480	7,803	-12,715	2.0%	0.5%	1.1%	0.9%	-1.4%	-2.9%
Utilities	38,265	-913	-111	-403	-100	-425	-2.3%	-0.3%	-1.0%	-0.3%	-1.1%	-2.7%
Trans. & Warehousing	236,951	4,753	3,933	4,911	-2,620	2,367	2.1%	1.7%	2.1%	-1.1%	1.0%	1.3%
Information	267,316	-6,697	5,745	-8,171	1,898	1,347	-2.5%	2.2%	-3.0%	0.7%	0.5%	-2.2%
Finance and Insurance	530,769	7,008	10,557	11,338	-1,847	-12,948	1.4%	2.0%	2.1%	-0.3%	-2.4%	-1.4%
Real Estate Rental & Leasing	185,174	2,872	1,218	420	140	-158	1.6%	0.7%	0.2%	0.1%	-0.1%	-2.2%
Prof., Sci., & Tech. Services	580,647	11,712	20,032	20,392	9,852	7,683	2.3%	3.8%	3.8%	1.7%	1.3%	0.3%
Mgmt. of Companies	124,585	2,379	3,221	743	-351	-2,840	2.0%	2.6%	0.6%	-0.3%	-2.2%	-2.3%
Admin./Sup. & Wst. Mgmt.	423,400	8,017	3,713	5,827	7,944	-16,451	1.9%	0.9%	1.4%	1.8%	-3.7%	-6.5%
Educational Services	372,146	7,685	7,475	11,170	7,013	1,444	2.3%	2.2%	3.2%	1.9%	0.4%	3.0%
Health Care & Social Assist.	1,268,071	19,565	12,535	25,336	22,383	17,942	1.7%	1.1%	2.1%	1.8%	1.4%	2.6%
Leisure and Hospitality	702,012	15,306	4,250	19,850	12,155	-2,015	2.3%	0.6%	3.0%	1.8%	-0.3%	-1.1%
Other Services	368,207	6,144	1,425	3,465	5,809	2,225	1.8%	0.4%	1.0%	1.6%	0.6%	-0.1%
Government	1,520,094	-9,484	5,167	3,439	20,591	8,192	-0.6%	0.3%	0.2%	1.4%	0.5%	0.8%

Source: U.S. Bureau of Labor Statistics; NYS Department of Labor, seasonal adjustment by Fiscal Policy Institute. NYS DOL separately estimates Nonfarm total and individual sectors so the sum of the sectors may not equal the Nonfarm total.

While U.S. manufacturing jobs rebounded slightly after the 1990-91 recession, manufacturing jobs did not grow following the recession early in this decade. Over the past 10 years, NY's factory jobs dropped by 33% compared to a national decline of 25%.



Source: Bureau of Labor Statistics CES manufacturing employment data, seasonally adjusted.

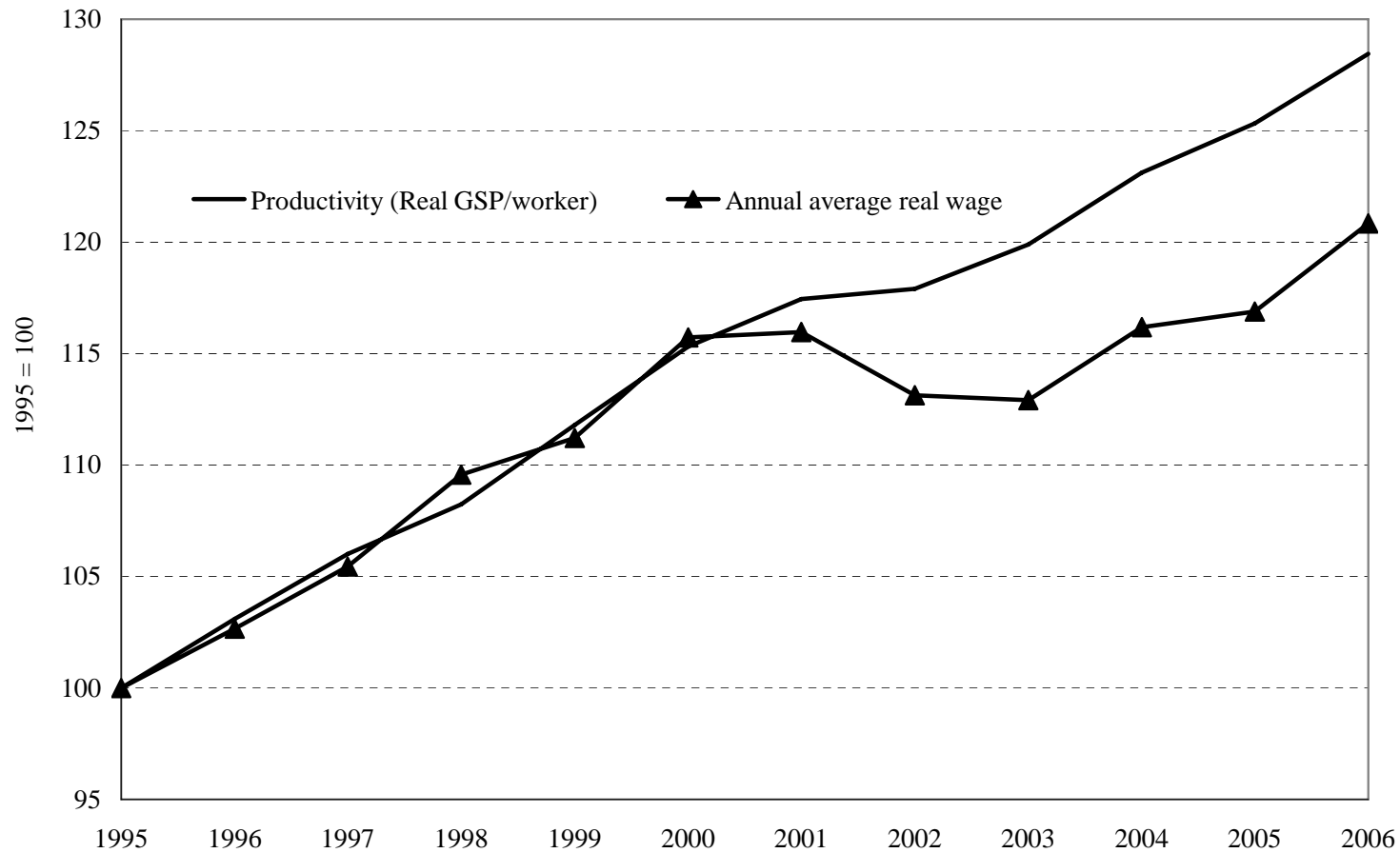
New York also faces four structural “troubling trends.”

- The deterioration in job quality—lower wages, fewer benefits and career ladders, and less economic security.
- Wage-productivity gap—New York’s productivity grows, as needed for rising living standards, but because it outstrips wage growth, workers’ living standards stagnate.
- Getting a job is not enough to lift families out of poverty—dramatic rise in the number of working poor.
- New York has the widest income gap between rich and poor and between the rich and the middle class among all states.

While job “quantity” is #1 concern now; we also have to pay more attention to job “quality.”

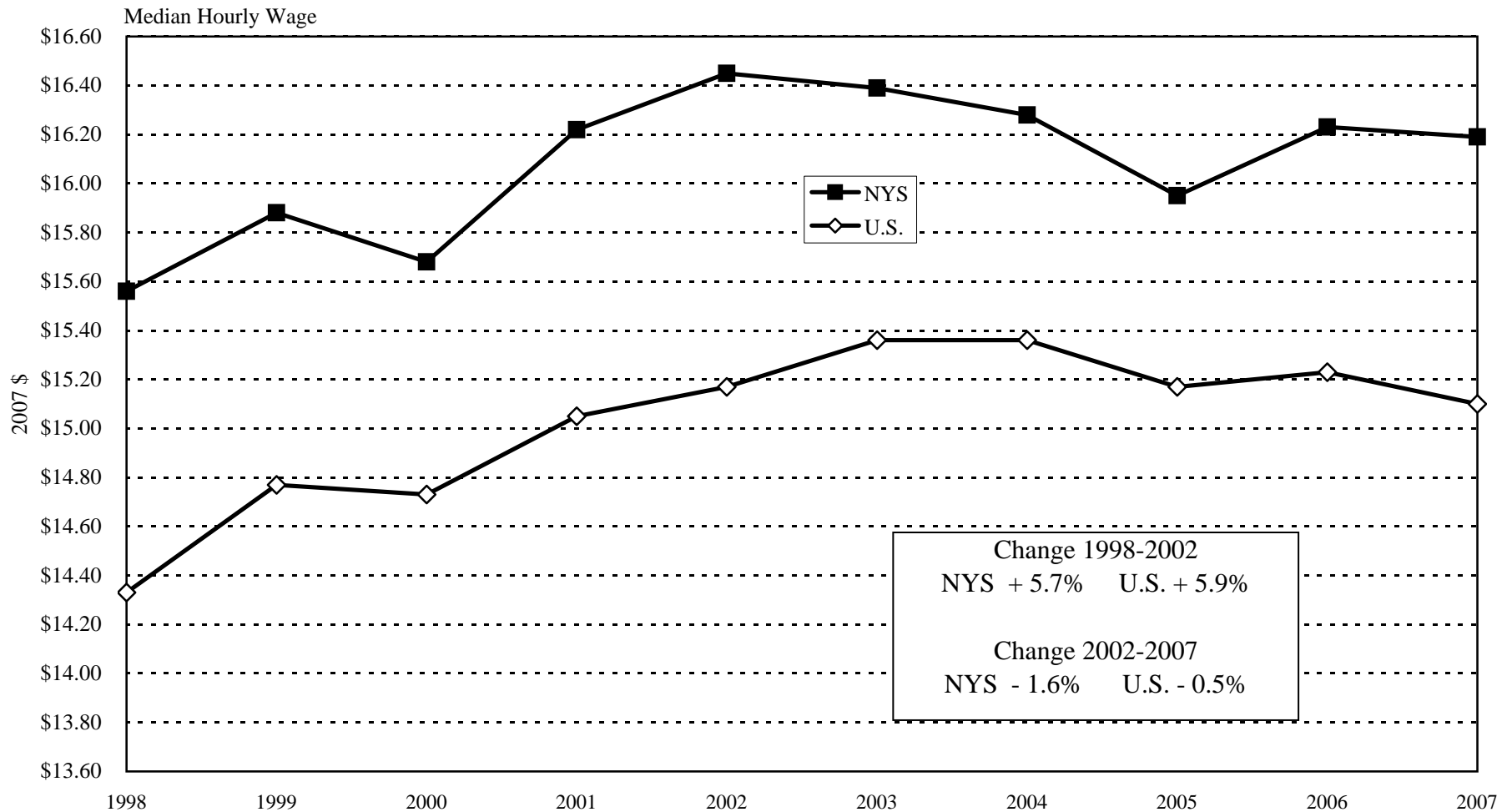
- New York has lost many middle-income paying jobs in manufacturing and other sectors and most of its job growth is concentrated in industries paying lower wages.
- New York workers are losing employer-provided health insurance and pension coverage.
- Nationally and in New York more employers have degraded the position of their workers by illegally classifying them as “independent contractors” to circumvent liability for payroll taxes and social insurance premiums covering workers’ compensation and unemployment.
- State Labor Department beginning to enforce wage and labor standards again after a decade of de-regulation. Likelihood of renewed Federal enforcement as well.

Since 2000, New York real wage growth has lagged the growth in productivity.



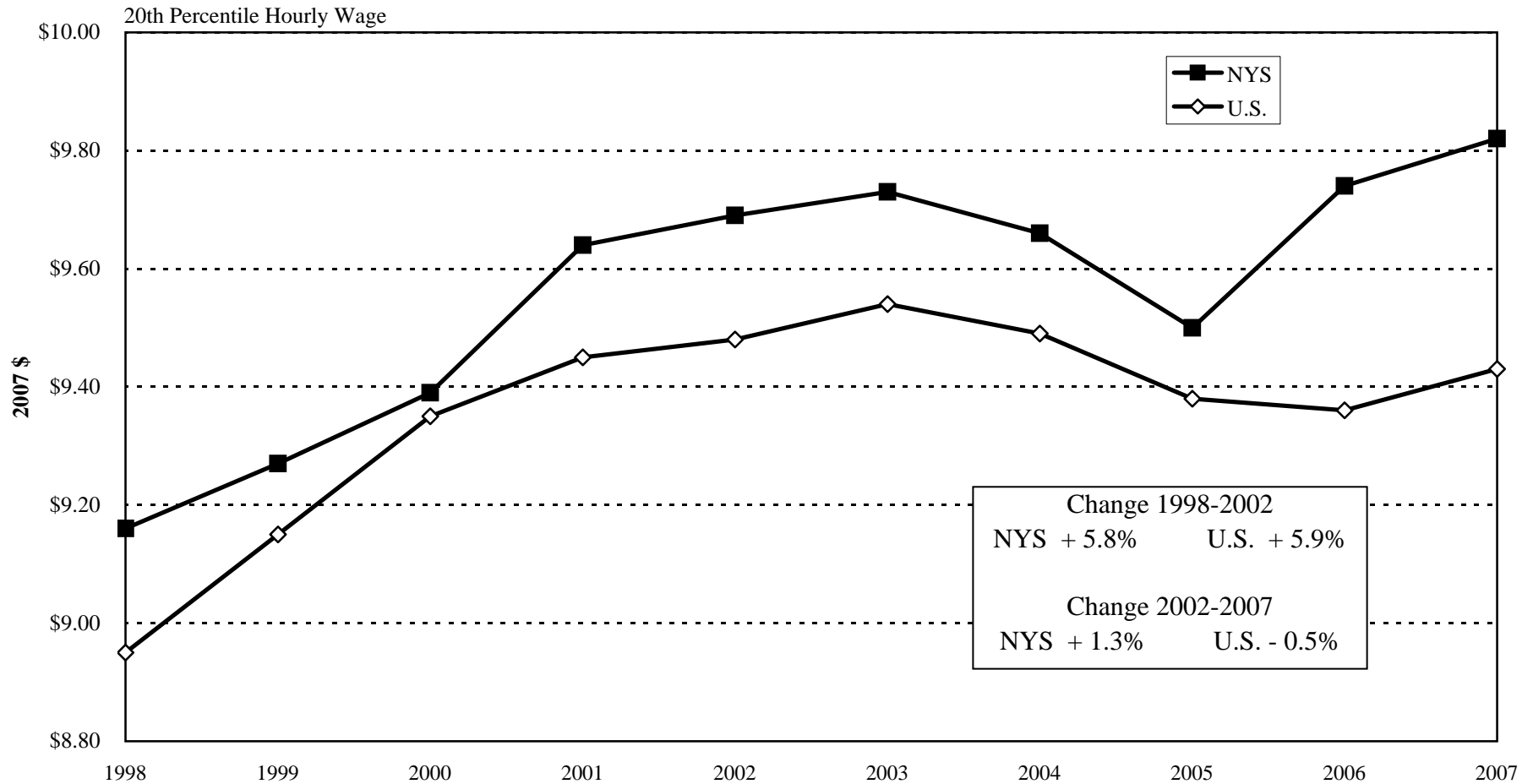
Sources: Bureau of Economic Analysis, analysis by FPI.

While real median wages grew moderately between 1998 and 2002, they did not rise during the recovery and expansion.



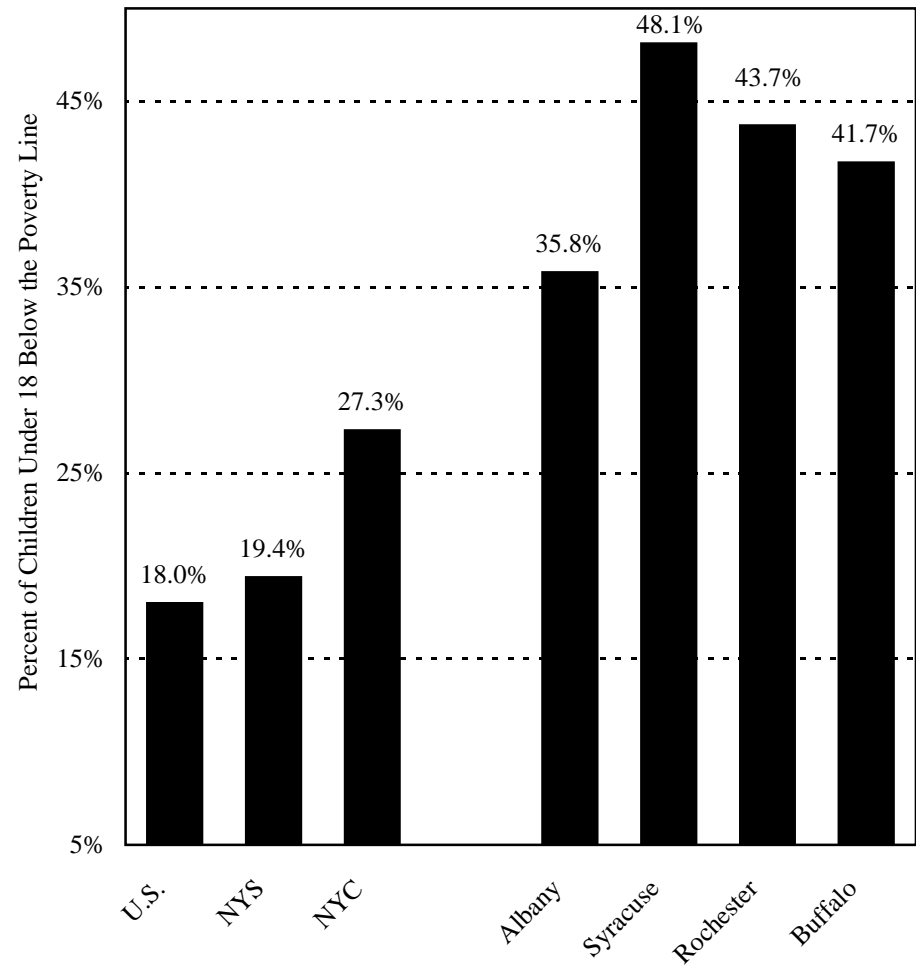
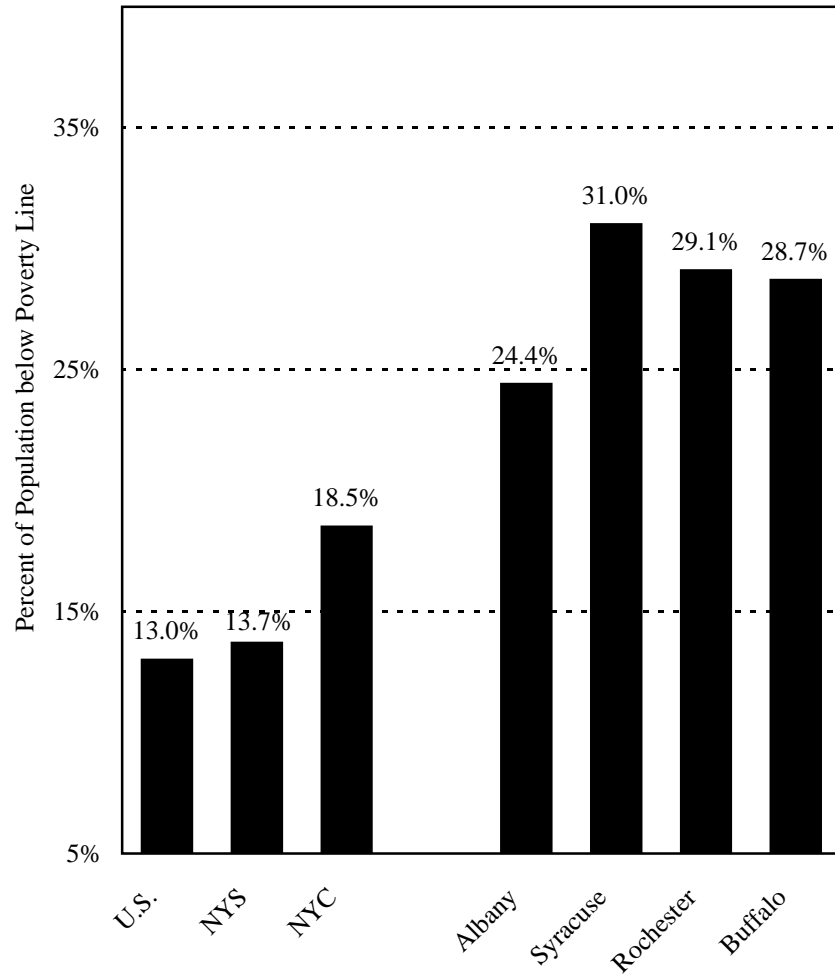
Source: FPI and Economic Policy Institute analysis of Current Population Survey data

New York's low-wage workers have been helped by the increase in the state minimum wage.



Source: FPI and Economic Policy Institute analysis of Current Population Survey data

Poverty rates are much higher in the major upstate cities than in New York City or the national average.



Source: American Community Survey, 2007.

Foreclosures will top 50,000 in New York State in 2008.

20 counties in NYS with the most foreclosures through the third quarter 2008.

<u>County</u>	<u>Foreclosure filings, 1st 3 quarters 2008</u>	<u>% of total NYS</u>
Queens	7,743	17.3%
Suffolk	5,621	12.5%
Kings	5,391	12.0%
Nassau	3,722	8.3%
Monroe	2,625	5.8%
Westchester	2,429	5.4%
Richmond	2,233	5.0%
Erie	2,184	4.9%
Bronx	1,990	4.4%
Orange	1,301	2.9%
Albany	1,129	2.5%
Dutchess	1,039	2.3%
Rockland	823	1.8%
Niagara	683	1.5%
New York	635	1.4%
Onondaga	590	1.3%
Putnam	459	1.0%
Broome	358	0.8%
Ulster	350	0.8%
Schenectady	326	0.7%
Sub-total for top 20 counties	41,631	92.8%
Sub-total for other 42 counties	3,248	7.2%
Total, New York State	44,879	100.0%

Source: New York Banking Department and Realty Trac, Oct. 30, 2008.

Capital gains and Wall Street wages, which accounted for half of the 2003-2007 growth in NYS AGI (the base for the NYS income tax), are projected to decline by \$100 billion from 2007 to 2009.

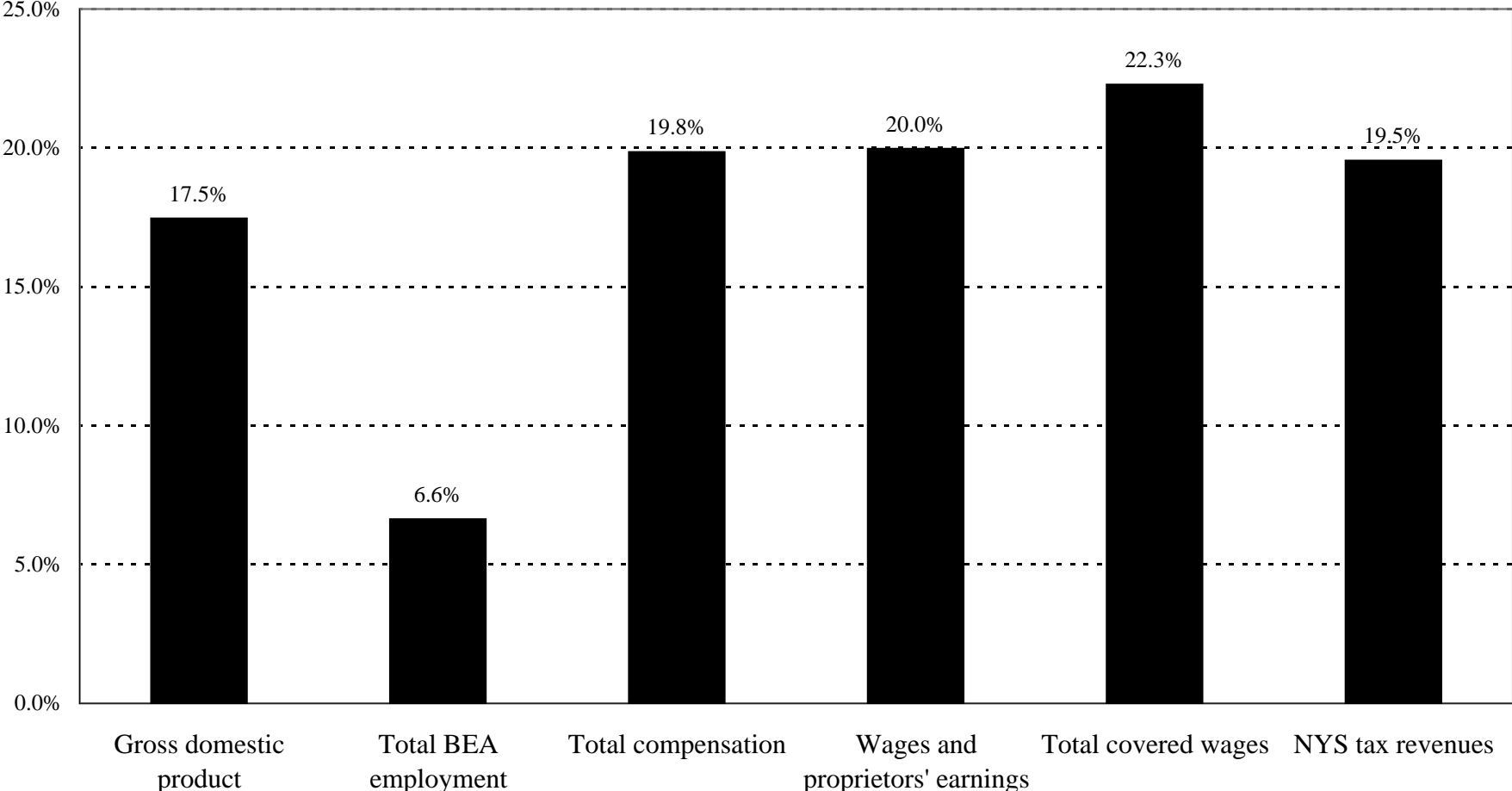
	New York State Adjusted Gross Income (NYSAGI) (\$ millions)	Net Capital Gains (\$ millions)	Total Wall Street Wages (\$ millions)	Change from prior year			Capital Gains and Wall Street Wages as share of	
				AGI (\$ millions)	Capital Gains (\$ millions)	Wall Street Wages (\$ millions)	AGI	AGI change from prior year
1991	276,058	8,735	12,321	-7,369	-392	12,321	7%	
1992	294,861	9,457	17,850	18,803	722	5,529	9%	33%
1993	297,112	13,365	18,572	2,251	3,908	722	11%	206%
1994	301,362	12,032	17,274	4,250	-1,333	-1,298	10%	-62%
1995	321,124	14,086	20,187	19,762	2,054	2,913	11%	25%
1996	347,981	22,441	24,534	26,857	8,355	4,347	13%	47%
1997	383,179	31,563	28,790	35,198	9,122	4,256	16%	38%
1998	417,996	38,929	33,602	34,817	7,366	4,812	17%	35%
1999	448,531	48,330	35,116	30,535	9,401	1,514	19%	36%
2000	508,934	62,302	48,777	60,403	13,972	13,661	22%	46%
2001	481,001	29,450	49,810	-27,933	-32,852	1,034	16%	114%
2002	459,919	20,398	40,278	-21,082	-9,052	-9,532	13%	88%
2003	473,778	28,455	38,008	13,859	8,057	-2,270	14%	42%
2004	525,964	51,196	46,161	52,186	22,741	8,153	19%	59%
2005	571,916	64,411	51,660	45,952	13,215	5,498	20%	41%
2006	632,601	82,412	63,553	60,685	18,001	11,893	23%	49%
2007	713,269	109,465	78,275	80,668	27,053	14,722	26%	52%
2008*	668,480	63,482	50,761	-44,789	-45,983	-27,514	17%	164%
2009*	634,980	46,041	41,599	-33,500	-17,441	-9,162	14%	79%
2007-2009 change	-78,289	-63,424	-36,675					
Average annual change								
2003-2007	10.8%	40.0%	19.8%					
2007-2009	-5.6%	-35.1%	-27.1%					

Sources: NYSAGI and Capital Gains, New York State Division of the Budget; 2007-2009 are DoB projections.

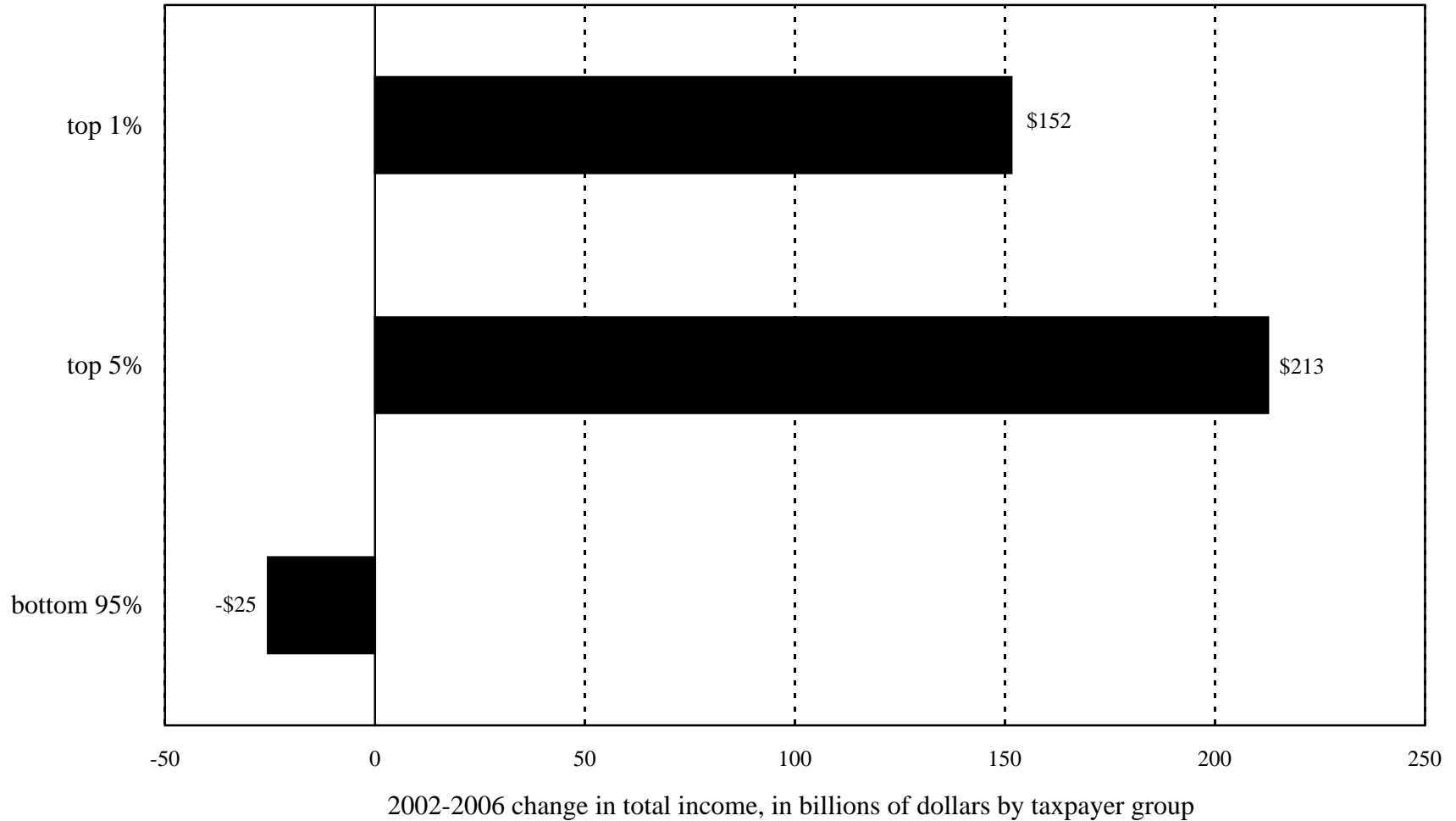
Wall Street Wages from NYS DoL: 1991-1999 on SIC basis; 2000-2009 on NAICS basis.

2008-2009 Wall Street wages are FPI projections.

Finance and Insurance Shares of Key Economic and Fiscal Measures, NYS



From 2002 to 2006, incomes soared for the top 5% of NYS taxpayers while the income of the bottom 95% fell



Even with the financial market meltdown, the top 5% will still be much better off in 2009 than in 2002 ... while everyone else will be worse off.

- All of the income growth from 2002 to 2006 went to the top 5% of taxpayers; the total income of the other 95% actually fell.
- Even with the projected 2008 and 2009 income declines for the top 5%, total incomes at the top will still be at least \$200 billion greater than in 2002.
- Projected incomes of the top 5% in 2009 will still be twice as great as in 2002.
- For the other 95%, on the other hand, their total 2009 incomes will still be smaller than in 2002.
- For the top 1%, despite projected declines in 2008 and 2009, 2010 incomes will be about the same as in 2006 (when they were 136% over 2002).

Adjusting to a smaller finance sector in New York.

- 50,000 finance jobs could be permanently lost. Big 3 (Goldman, Morgan Stanley, JP Morgan Chase) are now bank holding companies; less leverage is possible.
- This will entail a diminished revenue impact. They'll pay little tax next 4 years. Tighter regulation will limit excessive risk-taking, profits, bonuses.
- Imbalance between finance and the “real” economy will be corrected. Finance share of corporate profits rose from 10% in 1980 to 40% in 2007.

The Bright Side:

- Foreign Policy magazine named NYC the #1 Global City for Business. New York has many competitive strengths besides finance.
- Value-added per worker much higher than national average in many sectors.
- Dense urban areas more environmentally sustainable and efficient.
- As a result, market adjustments will occur. Real estate prices will fall, finance workers will adapt, new companies will start up or come to New York.
- Smaller finance sector will be good for New York City & the broader economy.

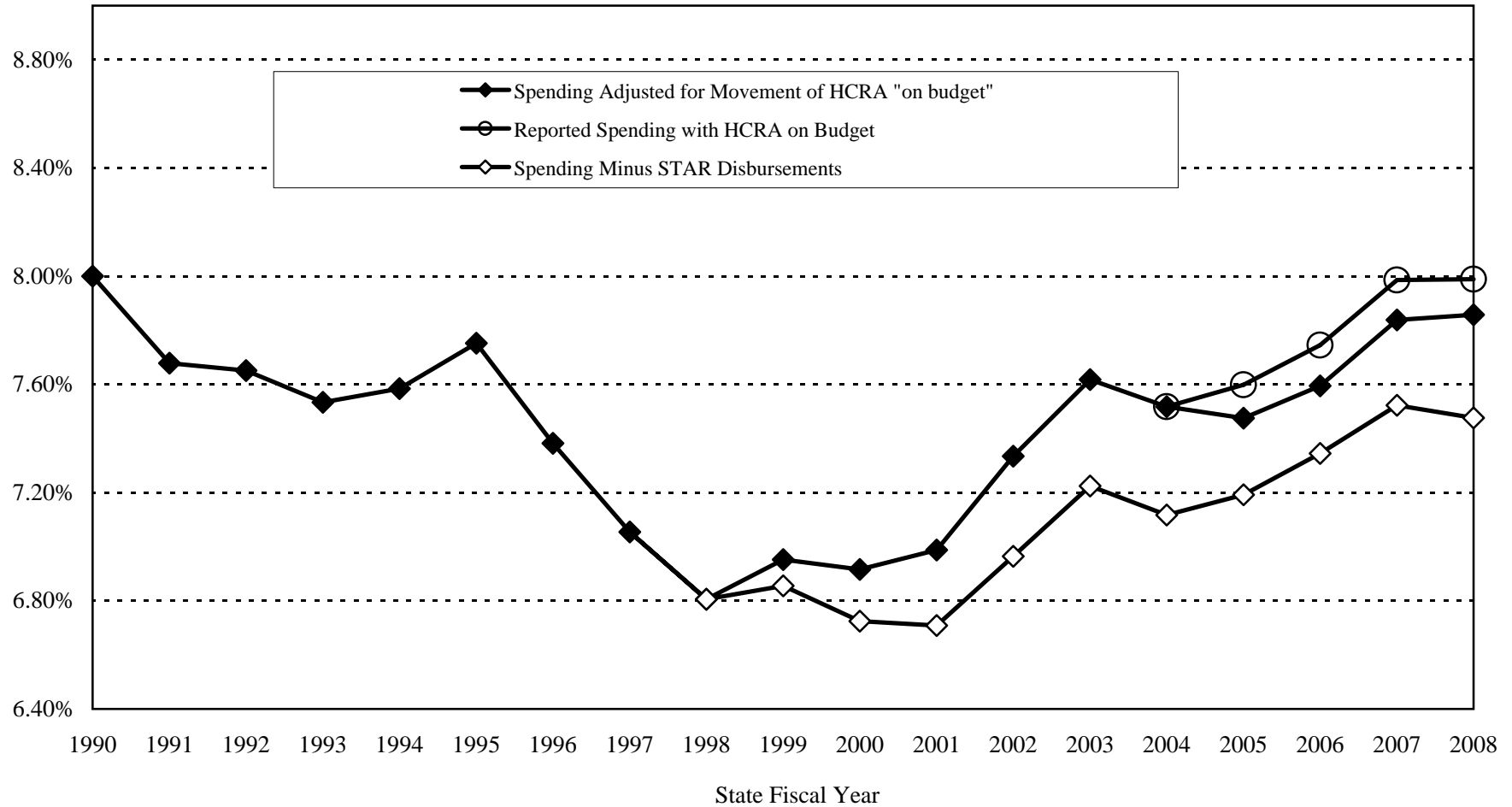
III. The Fiscal Context

Spending from All Governmental Funds

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	(MEMO) Total
<u>Amounts in Millions of Dollars</u>					
1994-1995	31,698.4	24,378.3	2,202.9	3,619.0	61,898.6
2000-2001	36,839.7	34,360.0	4,095.0	4,458.5	79,753.2
2007-2008	50,613.2	55,178.2	4,135.9	6,131.2	116,058.5
<u>Average Annual Rate of Change</u>					
1994-1995 to 2000-2001	2.54%	5.89%	10.89%	3.54%	4.31%
2001-2002 to 2007-2008	4.64%	7.00%	0.14%	4.66%	5.51%

"Growth" in state spending is due in large part to changes in financial reporting and new initiatives such as the STAR program.

Spending from all state funds for current services, as a percent of personal income.



Note: 2002-03 and 2003-04 disbursements have been adjusted to account for the payment in 2003-04 of \$1.9 billion of obligations incurred in 2002-03

What is driving NYS's deficit? Out of control spending? Or new commitments without new revenues and with federal disinvestment?

Important and expensive commitments made in last several years without any new revenue streams to pay for them

- Family Health Plus Takeover and Medicaid Cap - \$1 billion this year; \$1.35 next year and \$2.5 billion in 2010-11
- STAR – From \$2.5 billion in 2001-02 to \$6.0 billion in 2010-11
- CFE Settlement - \$5.5 billion in new foundation aid by 2010-11. Facilities investment in 2005-06 budget.
- Federal aid to NYS basically flat over past five years.
- State spending in areas other than health, education, STAR, and transportation grew by less than 3% a year from 2004 to 2008.

Since 1990, New York State's expenditures for employee wages and salaries have declined in real terms by almost a billion dollars, almost 7 percent.

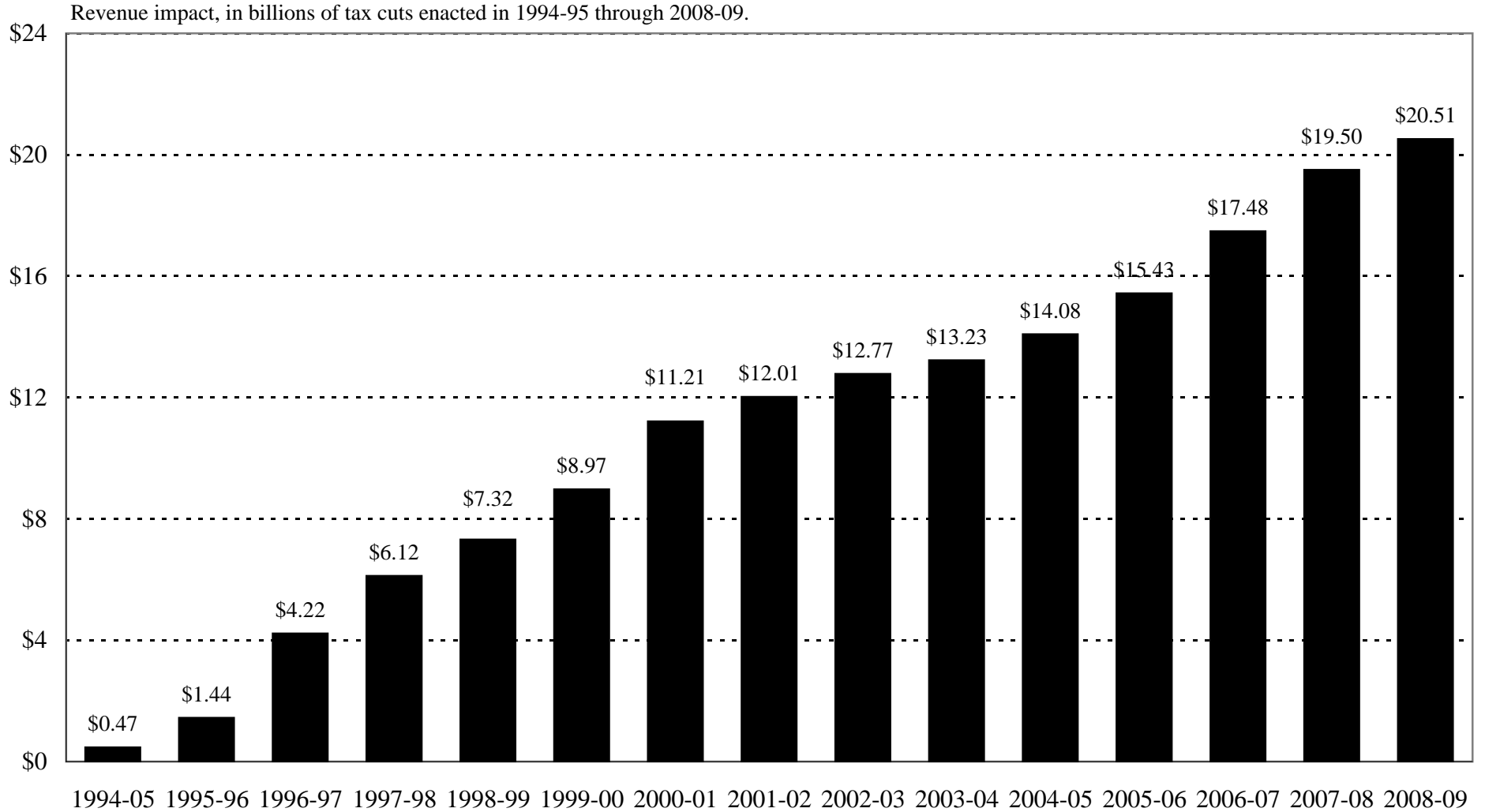
Personal Service expenditures in millions of SFY 2008 dollars

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
State FY 1989-90	\$8,100.0	\$4,631.0	\$12,731.0
State FY 1994-95	\$6,500.0	\$5,425.8	\$11,925.8
State FY 2007-08	\$6,659.4	\$5,194.6	\$11,854.0
<u>Average Annual Change</u>			
1989-90 to 1994-95	-\$320.0	\$159.0	-\$161.0
1994-95 to 2007-08	\$12.3	-\$17.8	-\$5.5
<u>Average Annual Percent Change</u>			
1989-90 to 1994-95	-4.31%	3.22%	-1.30%
1994-95 to 2007-08	0.19%	-0.33%	-0.05%
<u>Total 18 -Year Change</u>			
Amount	-\$1,440.6	\$563.6	-\$877.0
Percent	-17.79%	12.17%	-6.89%

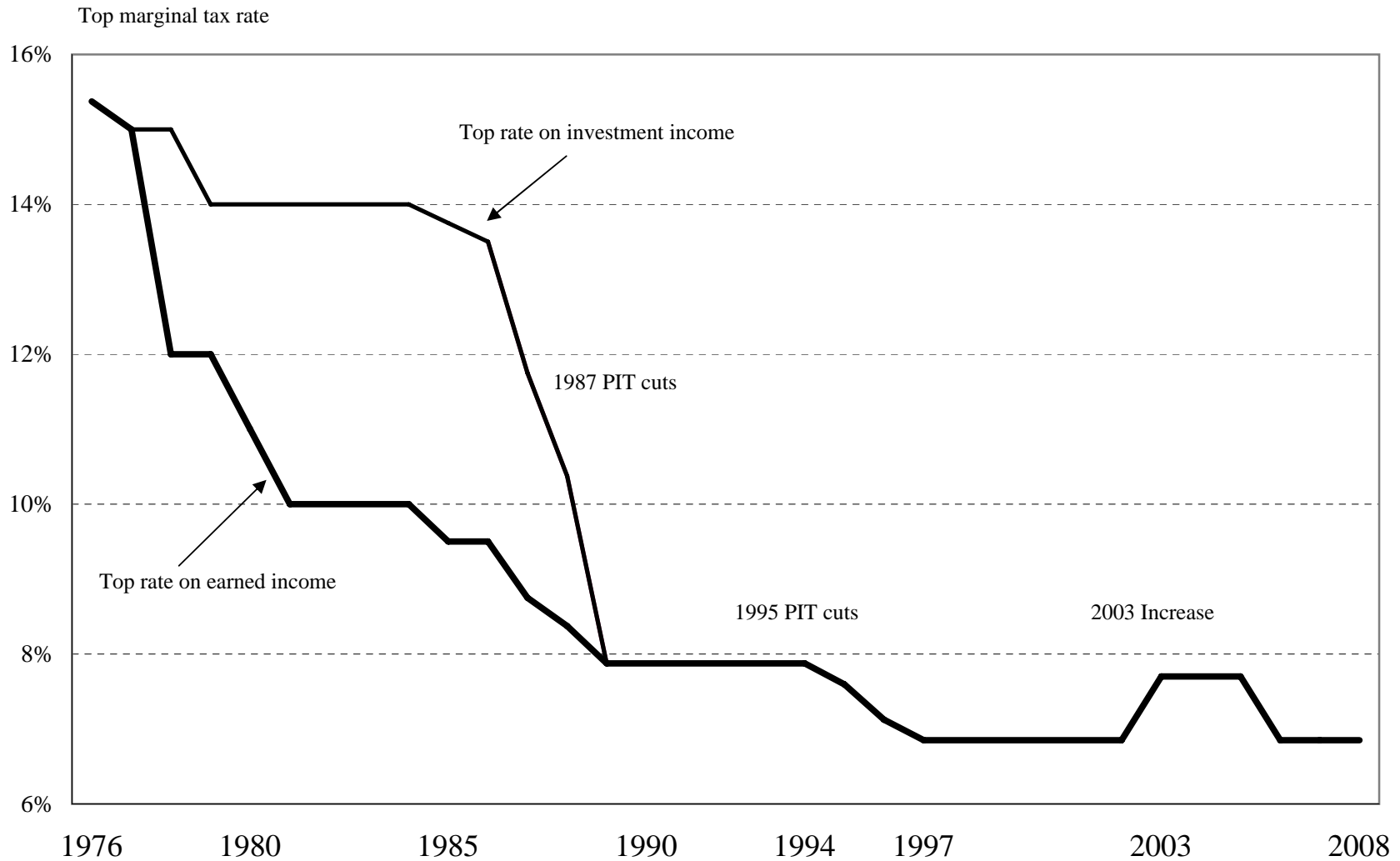
Uses November 2008 CPI-U level of 212.4 (1982-1984=100)

Uses data from the State Comptroller Annual Report on State Funds Cash Basis of Accounting

The tax cuts enacted since 1994 are reducing state revenues by over \$20 billion.



**New York State has cut its top personal income tax rate
by more than 50 percent over the last 30 years -from
15.375% to 6.85%.**

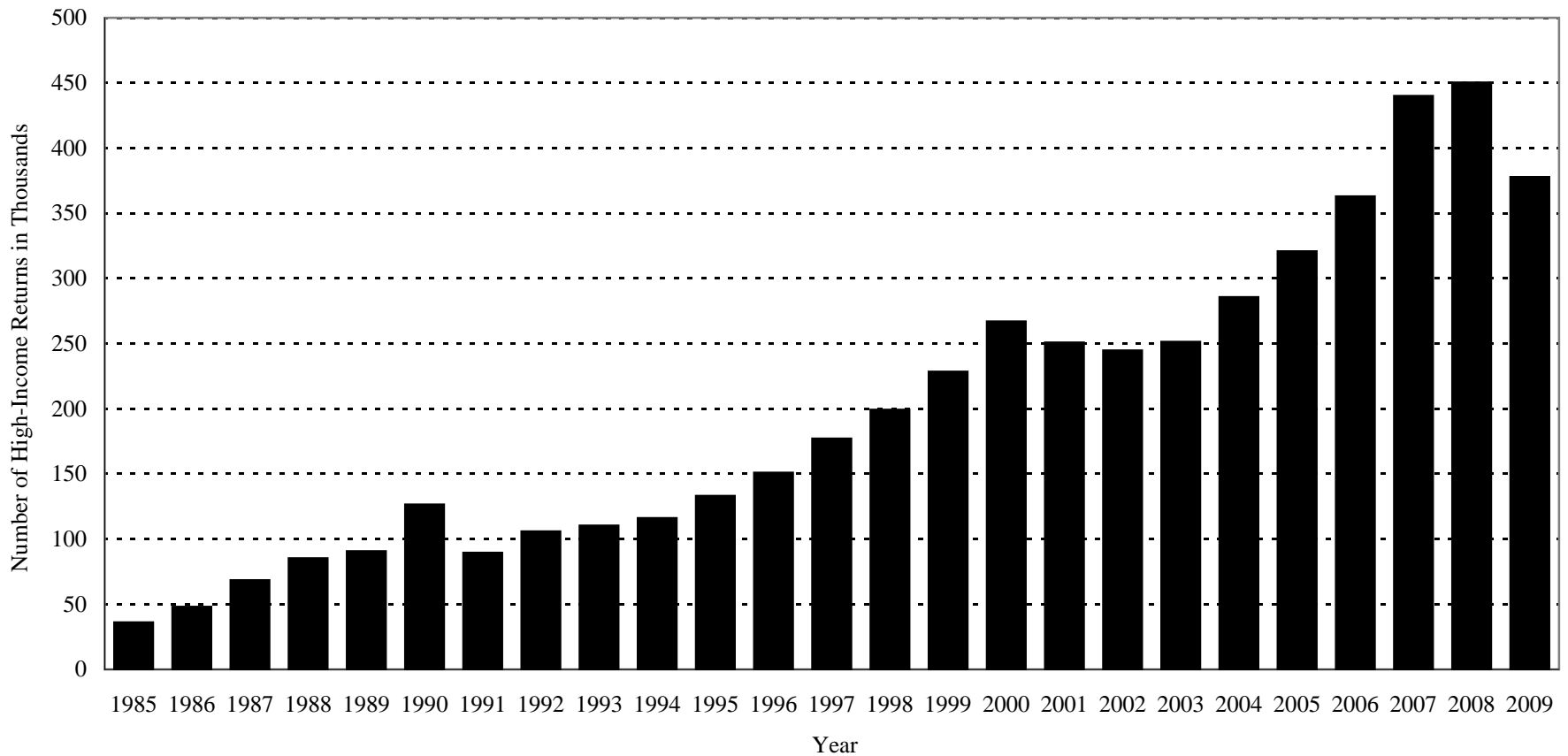


The 2003 tax increases did not have the negative economic effects that Governor Pataki predicted.



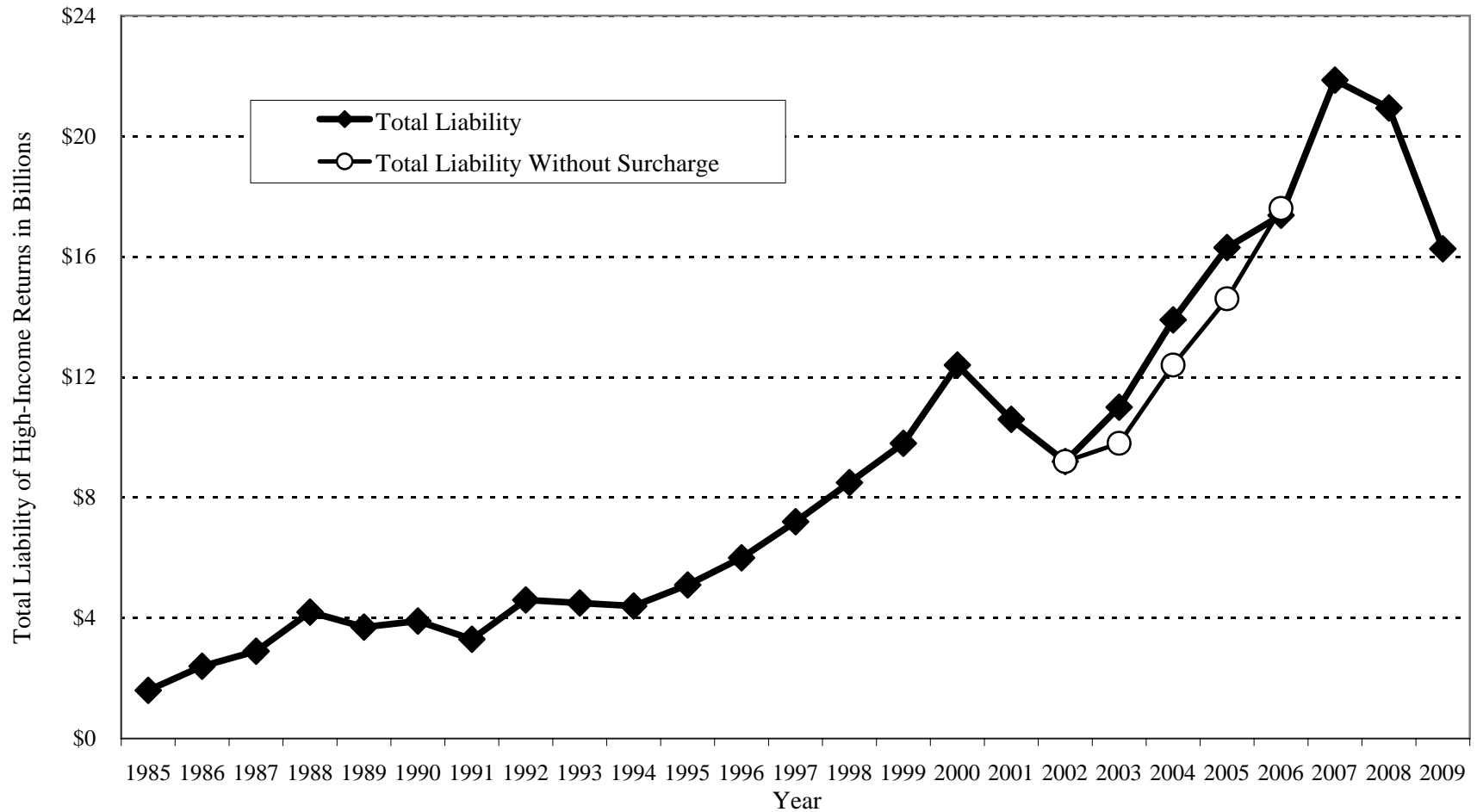
Source: NYS Department of Labor. 2008 projected annual employment level based on 11-month change.

Following the 2003 adoption of the 3-year temporary increase in the top rate on the personal income tax, the number of high-income returns grew significantly.



Source: New York State Division of the Budget, Economic and Revenue Outlook, 2009-10 Executive Budget. Includes DOB estimates for 2007, 2008, and 2009.

Total NYS Income Tax Liability of High-Income Returns



Source: New York State Division of the Budget, Economic and Revenue Outlook, 2009-10 Executive Budget. Includes DOB estimates for 2007, 2008, and 2009.

Those reporting NYS Adjusted Gross Income (NYSAGI) of \$200,000 or more.

New York's top state personal income tax rate is at an historical low relative to New Jersey and Connecticut.

	<u>1976</u>	<u>1985</u>	<u>2003</u>	<u>2004</u>	<u>2008</u>
New York	15.375%	9.5%	7.7%	7.7%	6.85%
New Jersey	2.5%	3.5%	6.37%	8.97%	8.97%
Connecticut	0	0	5.0%	5.0%	5.0%

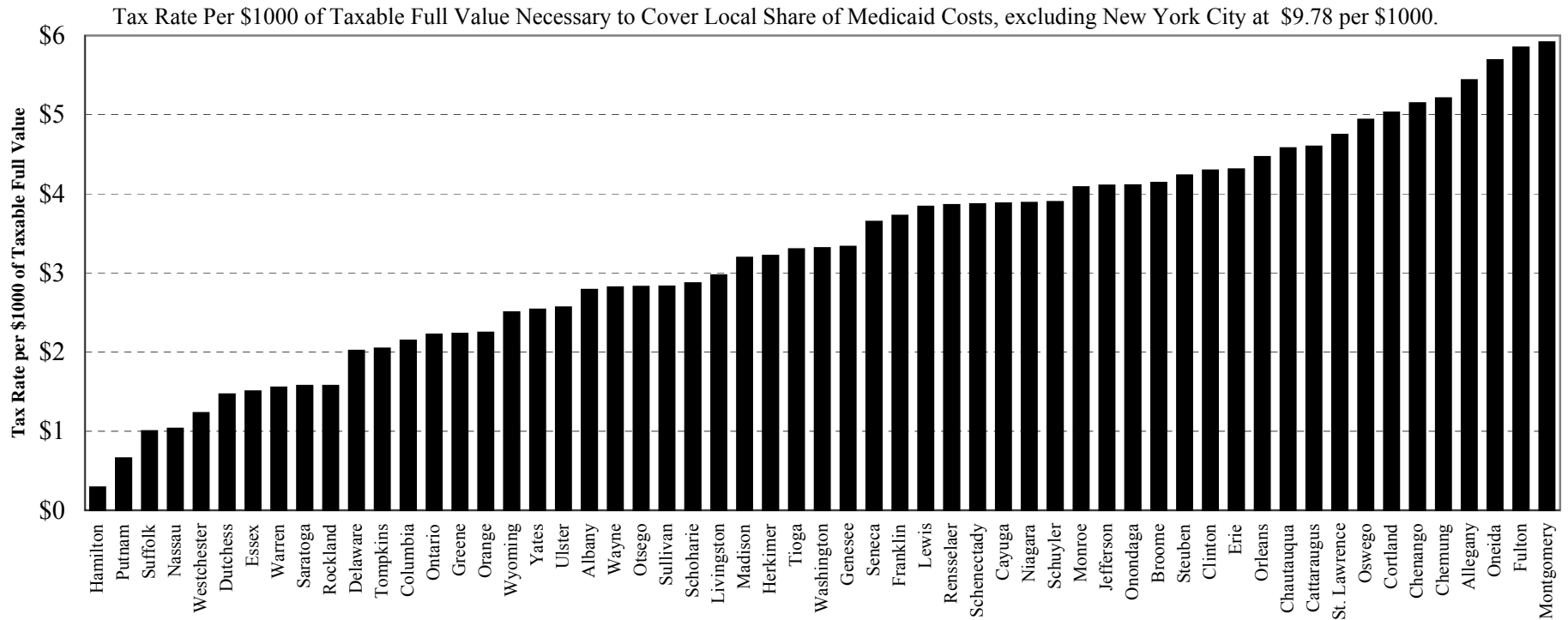
Note: The tax rates shown above are for wages, salaries and business income. Prior to 1991, Connecticut taxed the interest, dividends and capital gains of high income residents but it did not tax business income, wages, salaries and other income. From 1978 through 1988, New York employed a dual rate system in which it applied a higher top rate to investment income than to wages, salaries and business income. For 1985, the top rate applicable to investment income was 13.5%. In 2006, New York's top rate returned to 6.85%.

IV. State-Local Fiscal Relations

State policy choices have placed great pressure on local property and sales tax bases.

- New York State divides responsibility for the financing of important public services between itself and its local governments in ways that place great pressure on the local property and sales tax bases.
- This is particularly problematical for those localities that have relatively weak tax bases compared to their needs. For example, to cover the local share of Medicaid costs in 2003, it took the equivalent of \$6 per \$1000 of taxable full value in Montgomery and Fulton counties but only \$1 per \$1000 of taxable full value in Nassau and Putnam counties.
- That is because New York divides responsibility for the financing of the non-federal share of Medicaid costs between itself and its local governments on a “one size fits all” basis rather than taking the relative “ability to pay” of various localities into consideration.
- The result is that most of the counties for which local Medicaid costs are high relative to their tax bases are also very close to their constitutional tax limits; and they are counties in which the county government tax levy accounts for a much larger percentage of the total real property tax bill for all purposes (i.e., county, city, town, village, school district, etc.).

Basing the local share of Medicaid costs on the kinds of services provided rather than on "ability to pay," places great pressure on communities with weak tax bases relative to their concentrations of needy individuals. Capping the growth in the local share of Medicaid costs institutionalizes that inequity.

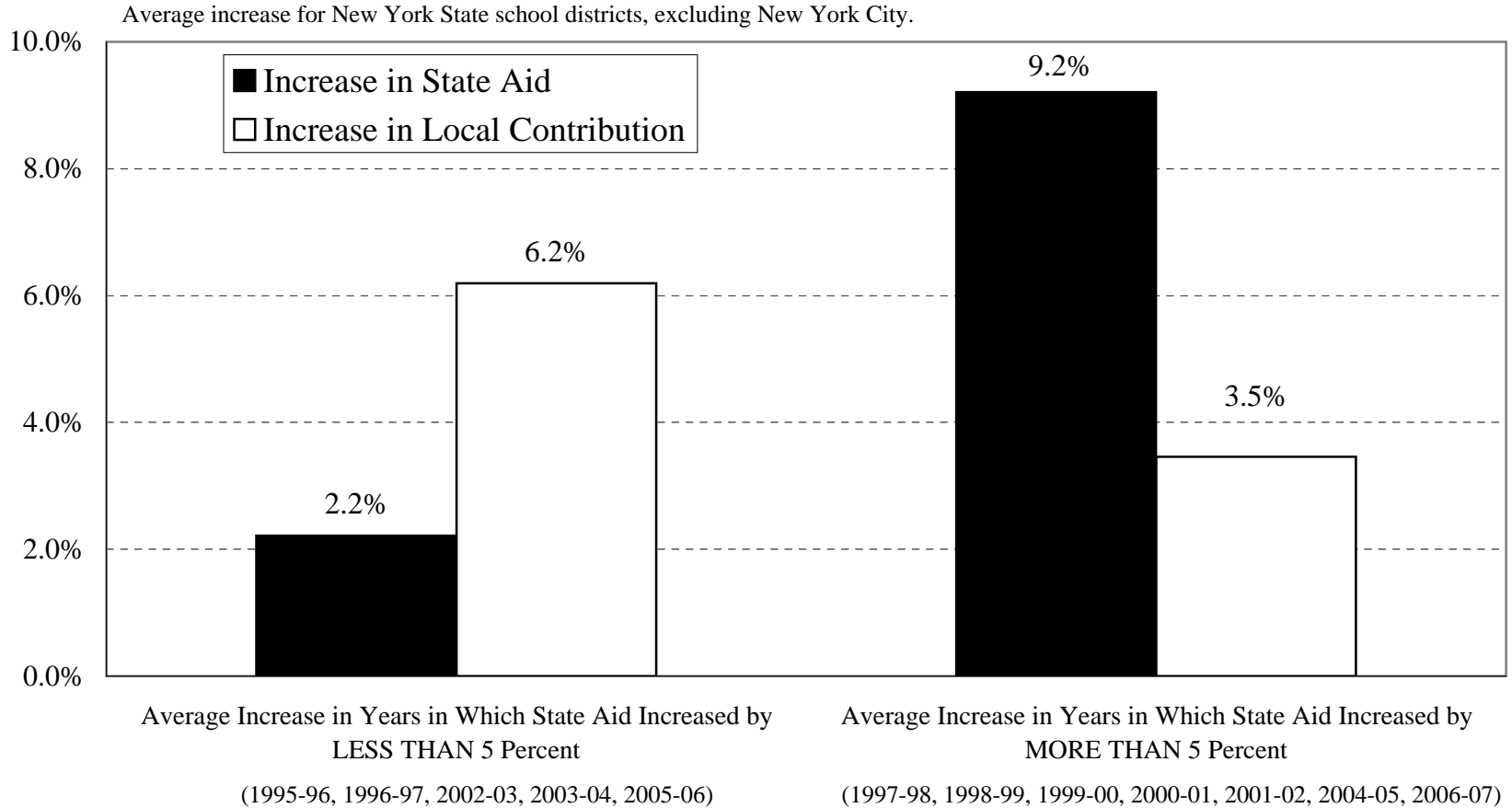


Sources: Medicaid Expenditures from NYS Department of Health. Full value from Office of State Comptroller.

Long-run and short-run responses can complement each other effectively.

- In the short run, the Governor and the Legislature can and should provide more effective and efficient property tax relief by replacing the Middle Class STAR program with a Middle Class “circuit breaker” that targets aid to those who are the most overburdened by their real property tax bills.
- In the long run, however, more systematic changes are needed in the fiscal policies that place great pressure on the local property and sales tax bases in the first instance.
- Toward this end, the governor and the legislature should adopt a multi-year strategy that will simultaneously (a) reduce the pressure that has been placed on local property and sales tax bases and (b) reduce the significant fiscal disparities that exist within New York State by:
 - Restoring New York State's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
 - Fully implementing the initial 4-year phase-in of the statewide solution to the Campaign for Fiscal Equity law suit that was proposed by Governor Spitzer and which was enacted by the State Legislature as part of its adoption of the 2007-08 state budget; and then gradually increasing the state share of each district’s foundation or “sound, basic education” amount.
 - Gradually increasing the state share of Medicaid costs in a way that bases each county's share of those costs on objective measures of its relative "ability to pay.”

There is a strong inverse relationship between changes in state aid to education and changes in local property tax levies.



Source: New York State Education Department, Fiscal Profiles. State Aid includes STAR reimbursements.

Not only is the Executive Budget proposing to cut school aid by \$2.5 billion compared to what was planned for 2009-10 but it is cutting it by \$635 million compared to this year (2008-09)

Executive Budget Presentation of Proposed School Aid Cuts

TABLE II-A
SUMMARY OF AIDS FINANCED THROUGH SCHOOL AID APPROPRIATIONS
-- 2008-09 AND 2009-10 SCHOOL YEARS -- NEW YORK STATE

AID CATEGORY	2008-09	2009-10	Change	
	School Year	School Year	Amount	Percent
I. Formula Based Aids:	(-----Amounts in Millions-----)			
Foundation Aid	\$14,873.59	\$14,873.59	\$0.00	0.00 %
Public Excess High Cost Aid	412.50	464.51	52.01	12.61
Private Excess Cost Aid	262.09	299.93	37.84	14.44
Operating Reorganization Incentive Aid	2.86	2.86	0.00	0.00
Textbook Aid	184.83	183.65	(1.18)	(0.64)
Hardware & Technology Aid	37.50	37.76	0.26	0.69
Software Aid	45.53	45.77	0.24	0.53
Library Materials Aid	19.40	19.29	(0.11)	(0.57)
BOCES Aid	672.79	706.09	33.30	4.95
Special Services	196.78	203.43	6.65	3.38
Transportation Aid (Including Summer)	1,525.55	1,618.49	92.94	6.09
High Tax Aid	204.70	204.70	0.00	0.00
Universal Pre-K	401.23	401.23	0.00	0.00
Academic Achievement Grant	1.20	1.20	0.00	0.00
Supplementary Educational Improvement Plan	17.50	17.50	0.00	0.00
Charter School Transitional Aid	20.28	18.41	(1.87)	(9.22)
Full Day K Conversion Aid	5.40	2.85	(2.55)	(47.22)
Academic Enhancement Aid	8.32	8.32	0.00	0.00
Supplemental Public Excess Cost Aid	4.31	4.31	0.00	0.00
Formula Based Aids Total	\$18,896.36	\$19,113.90	\$217.54	1.15 %
Deficit Reduction Assessment	0.00	(1,097.93)	(1,097.93)	NA
	\$18,896.36	\$18,015.97	(\$880.39)	(4.66) %
EXCEL Debt Service - New York City	97.00	130.00	33.00	34.02
Building Aid/Reorganization Building	1,992.75	2,204.51	211.76	10.63
	2,089.75	2,334.51	244.76	11.71
Total Formula-Based and Other Aids	20,986.11	20,350.48	(635.63)	(3.03) %

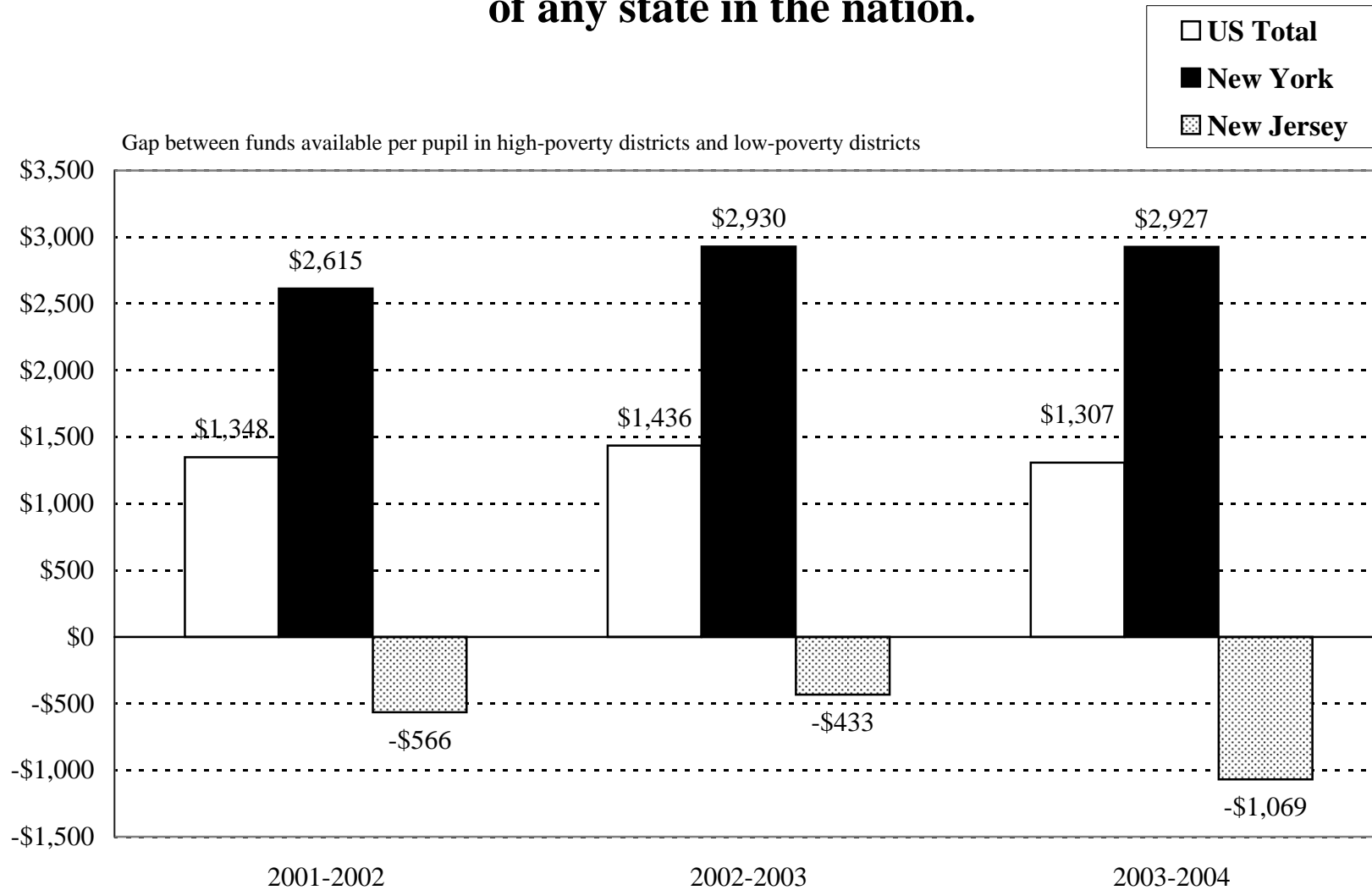
Not only is the Executive Budget proposing to cut school aid by \$2.5 billion compared to what was planned for 2009-10 but it is cutting it by \$635 million compared to this year (2008-09)

Proposed "Below the Line" School Aid Cuts Allocated Among Affected Aids

TABLE II-A
SUMMARY OF AIDS FINANCED THROUGH SCHOOL AID APPROPRIATIONS
-- 2008-09 AND 2009-10 SCHOOL YEARS -- NEW YORK STATE

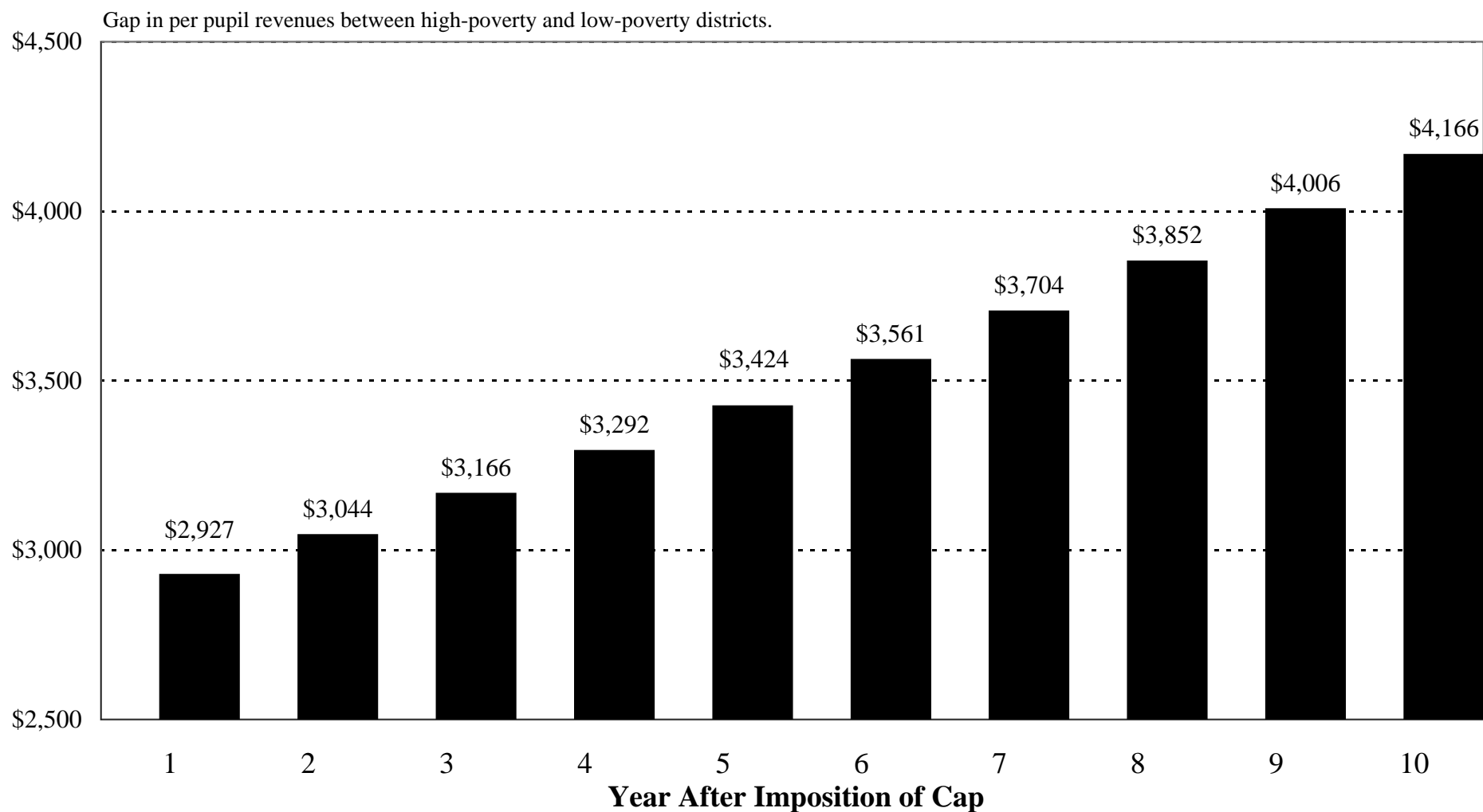
<u>AID CATEGORY</u>	<u>2008-09</u> <u>School Year</u>	<u>2009-10</u> <u>School Year</u>	<u>Change</u> <u>Amount</u>	<u>Percent</u>
I. Formula Based Aids:				
(-----Amounts in Millions-----)				
Foundation Aid	\$14,873.59	\$14,018.87	(\$854.73)	(5.75) %
Public Excess High Cost Aid	412.50	436.88	24.39	5.91
Private Excess Cost Aid	262.09	282.33	20.24	7.72
Operating Reorganization Incentive Aid	2.86	2.49	(0.37)	(12.98)
Textbook Aid	184.83	171.28	(13.55)	(7.33)
Hardware & Technology Aid	37.50	35.48	(2.02)	(5.39)
Software Aid	45.53	42.69	(2.85)	(6.26)
Library Materials Aid	19.40	17.99	(1.41)	(7.27)
BOCES Aid	672.79	657.14	(15.65)	(2.33)
Special Services	196.78	194.22	(2.56)	(1.30)
Transportation Aid (Including Summer)	1,525.55	1,516.41	(9.14)	(0.60)
High Tax Aid	204.70	188.97	(15.73)	(7.68)
Universal Pre-K	401.23	401.23	0.00	0.00
Academic Achievement Grant	1.20	1.14	(0.06)	(4.96)
Supplementary Educational Improvement Plan	17.50	16.63	(0.87)	(4.95)
Charter School Transitional Aid	20.28	17.68	(2.60)	(12.80)
Full Day K Conversion Aid	5.40	2.53	(2.87)	(53.20)
Academic Enhancement Aid	8.32	8.04	(0.28)	(3.39)
Supplemental Public Excess Cost Aid	4.31	3.97	(0.34)	(7.78)
Formula Based Aids Total	<u>\$18,896.36</u>	<u>\$18,015.97</u>	<u>(\$880.39)</u>	<u>(4.66) %</u>
EXCEL Debt Service - New York City	97.00	130.00	33.00	34.02
Building Aid/Reorganization Building	1,992.75	2,204.51	211.76	10.63
	<u>2,089.75</u>	<u>2,334.51</u>	<u>244.76</u>	<u>11.71</u>
Total Formula-Based and Other Aids	<u>\$20,986.11</u>	<u>\$20,350.48</u>	<u>(635.63)</u>	<u>(3.03) %</u>

New York has the largest gap between the resources available in high-poverty and low-poverty school districts of any state in the nation.



Source: The Education Trust Funding Gap reports from 2004, 2005, 2006

A spending cap on school budgets would make this gap even worse.



Source: \$2,927 gap from Education Trust calculations based on U.S. Department of Education school district revenue data for the 2003-04 school year.

V. Economic Security

Economic Security

A steep and long recession will immeasurably add to the economic security challenges New York State faces. Unemployment is rising sharply, many people are losing health insurance, and the number of families experiencing some form of hardship is increasing daily. Foreclosure and bankruptcy are adding new economic emergencies.

Unemployment insurance historically has been not only an individual and family safety net but also an “automatic stabilizer” for local economies. New York’s unemployment system is ill-equipped to handle a record volume of claimants and the system’s benefits and financing have not been updated for nearly 10 years. A much smaller fraction of the unemployed receive benefits in New York compared to neighboring states.

Rising unemployment will thrust millions of people into poverty and “deep poverty” around the country. Budget cutbacks will make it harder for human services providers to assist the poor at a time when needs are sky-rocketing.

While the governor is proposing an increase in the basic welfare grant, it will not take effect until January of 2010, and the proposed increase will still leave the purchasing power of the grant well below its 1990 level.

Unemployment insurance—protecting workers and the economy

- Unemployment insurance is a vital safety net for workers who have lost jobs through no fault of their own, mitigating economic hardship. Enabling families to preserve some purchasing power also helps local businesses keep customers.
- The maximum weekly benefit has been stuck at \$405 since 2000. *The benefit should be increased, with a provision for indexing to protect benefits from inflation.*
- The state's unemployment trust fund is chronically underfinanced. New York ranks second-to-last out of 50 states with respect to the solvency of its fund. Since 2003, the state has paid \$36 million in interest and penalties when the fund needed to be bailed out. *The taxable wage base should be brought into line with federally-recommended guidelines and those of neighboring states.*
- New York's outdated system leaves too many workers ineligible and penalizes low-wage and part-time workers. The reciprocity rate is only 40% statewide, below that of the four major neighboring states, and only 33% in NYC. *Policies need to ensure that the system functions fairly and effectively for the state's workers.*

State unemployment insurance benefits served a critical economic stabilizing function during the 2000-2002 downturn.

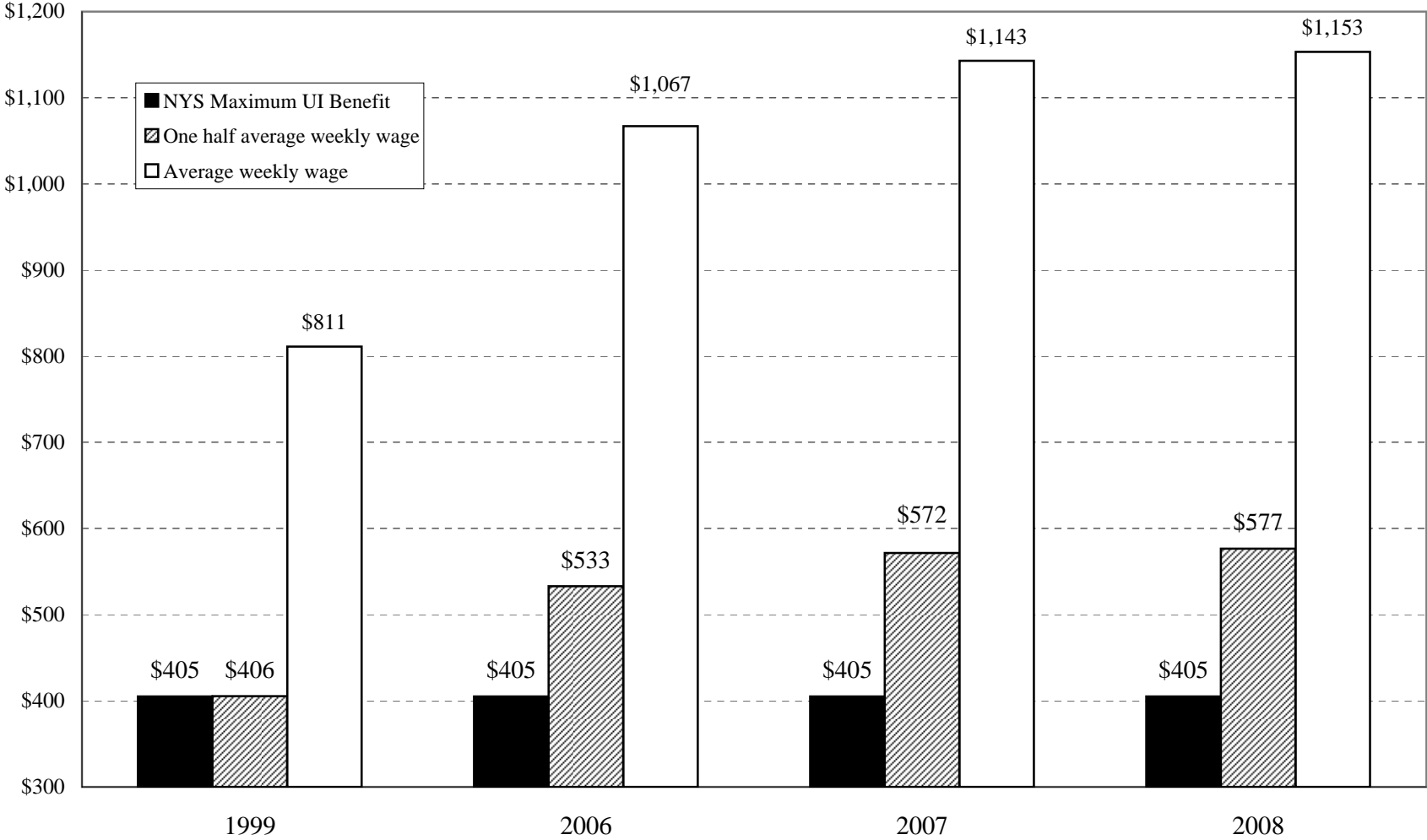
	<u>Increase in state unemployment insurance (in millions)</u>	<u>Percent increase in state unemployment insurance</u>	<u>Change in unemployment insurance as a share of the change in personal income</u>
United States	\$32,838	164.9%	3.6%
New York State	\$2,620	158.7%	17.9%
New York City	\$1,407	168.4%	36.1%
Eastern New York	\$588	159.0%	8.8%
Capital District	\$81	111.3%	6.8%
Long Island	\$295	179.0%	7.9%
Hudson Valley	\$212	160.2%	12.1%
Western and Northern New York	\$626	140.3%	15.6%
Central New York	\$85	150.5%	6.6%
Finger Lakes	\$180	175.2%	14.0%
Mohawk Valley	\$54	126.3%	25.6%
North Country	\$180	175.2%	46.7%
Southern Tier	\$100	186.3%	88.1%
Western New York	\$167	120.8%	12.3%

Note: Increase in unemployment insurance in millions of dollars.

Source: Bureau of Economic Analysis data analyzed by FPI.

Nominal dollars, not adjusted for inflation

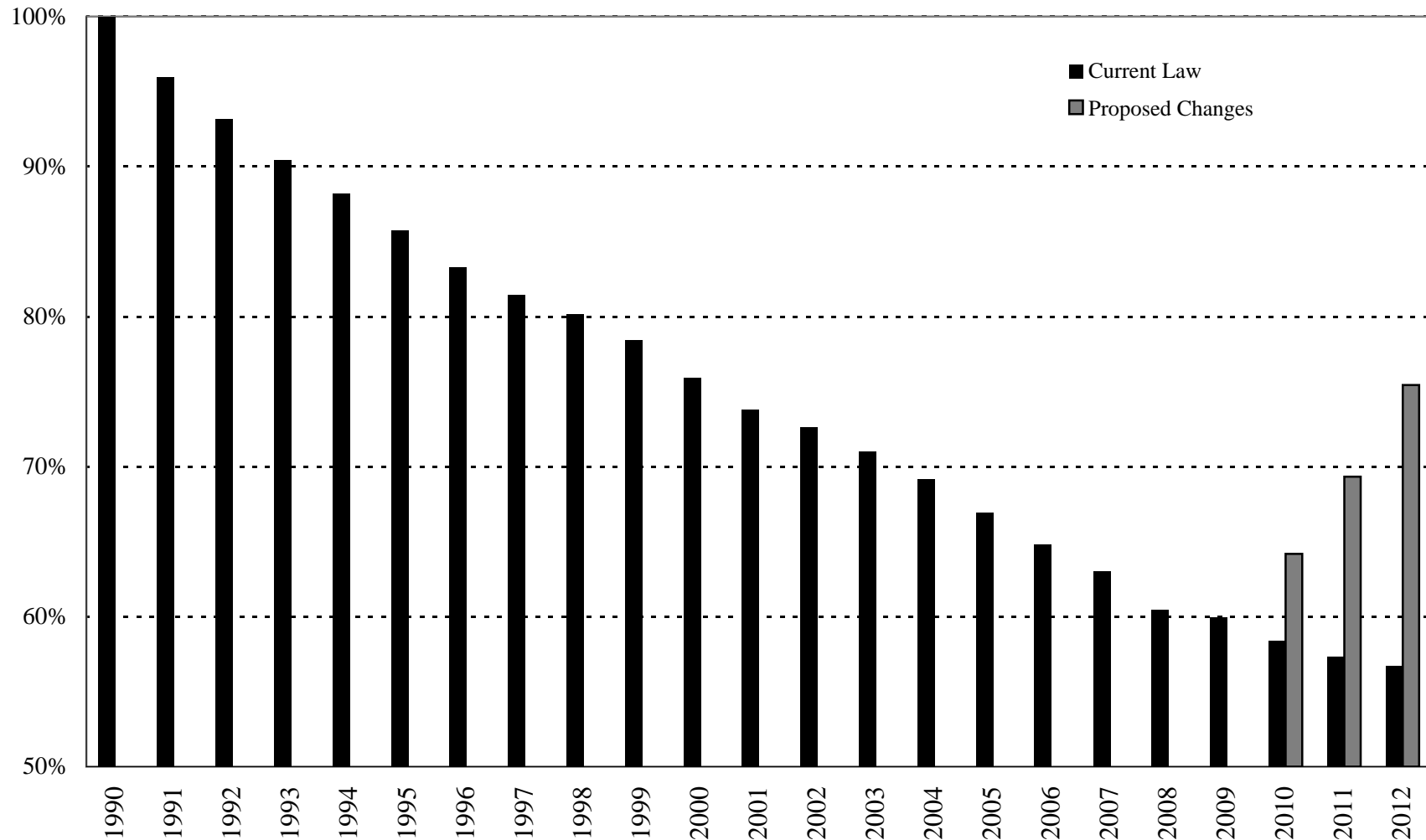
New York State's maximum weekly Unemployment Insurance benefit has not kept pace with wage growth.



Source: Average weekly wages from the Bureau of Labor Statistics. The 2008 estimate is based on NYS DOB forecasts of growth in wage per employee contained in their 2009-10 Economic and Revenue Outlook budget publication.

New York's Basic Cash Assistance Allowance has not been increased since 1990. It has lost 40% of its purchasing power since then.

Inflation adjusted Basic Allowance for a Three Person Family (Pre Add plus HEA plus SHEA) as a Percent of 1990 Basic Allowance.



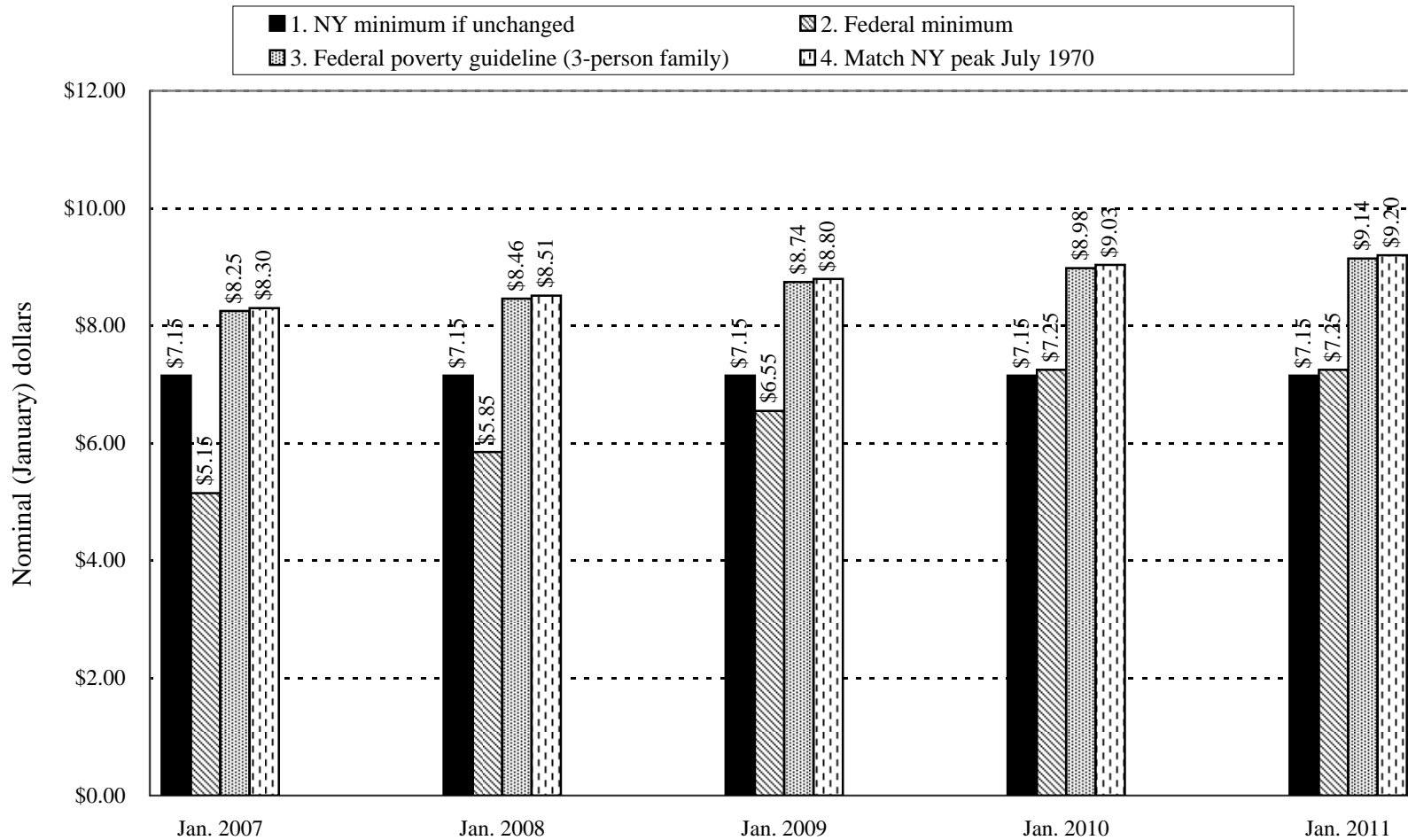
Governor Paterson is proposing to reduce state spending by \$84 million in 2009-10 and \$79 million in 2010-11 by reducing the state supplement for SSI (Supplementary Security Income) recipients.

	<u>Monthly NYS Supplement for SSI Recipients</u>			
	<u>Individuals</u>	<u>Couples</u>	<u>Individuals Living with Others</u>	<u>Couples Living with Others</u>
Current (has not been increased for 20 years)	\$87	\$104	\$23	\$46
Proposed for June 2009 through December 2009	\$63	\$77	\$7	\$25
Proposed for January 2010 and thereafter	\$70	\$85	\$12	\$32

Strengthen and expand the middle class by creating better “up ramps” to the middle class for low income New Yorkers.

- Improve quality, access and affordability of public higher education.
- Build more effective labor markets and better career ladders.
 - Set solid minimum standards for wages and benefits-starting with restoring the purchasing power of the minimum wage to its 1970s level.
 - Continue to improve enforcement of labor standards.
 - Provide English classes for speakers of foreign languages, and more literacy classes and basic education.
 - Fund transitional jobs and career training programs on a meaningful scale.

To restore the minimum wage to its July 1970 purchasing power, New York would have to increase its minimum wage to \$9.20 by January 2011.



Note: Inflation (CPI-U) forecasts for 2010 and 2011 from Economy.com.

Economic Development Policy Agenda

New York's key strength is its highly educated, highly skilled and diverse workforce that gives the state a significant productivity edge over the national average and among the large states with diverse economies. "Business climate" yardsticks that dwell solely on "cost" comparisons among states but ignore the high relative value of production in New York are conceptually flawed and useless.

New York needs to improve the effectiveness and accountability of its economic development programs and ensure that taxpayers are receiving value for the investments and subsidies made by the State.

Particularly in light of the permanent downsizing of the finance sector, New York needs to re-focus on revitalizing its manufacturing base, still key in most upstate regional economies. New York State should work with the Obama administration to craft effective regional economic development strategies.

Re-orienting NYS economic development.

- Between NYS and local Industrial Development Agencies, billions of dollars annually are spent in the name of economic development with poor results.
- Make good jobs the goal of economic development. Add accountability and prevailing wage and living wage standards. IDA reform is an opportunity to make real progress here.
- Promote green jobs development and sustainable development.
- NYS can't have a globally competitive economy without a strong manufacturing sector, including auto-related industries.
- Scrap the severely flawed Empire Zone program.
- The Investment Tax Credit should be modified to reduce credits provided without any requirement for job creation or retention.

