One New York

AN AGENDA FOR SHARED PROSPERITY

Discussion Paper
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FISCAL POLICY INSTITUTE

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An Agenda for Shared Prosperity

A discussion paper
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Acknowledgments

Executive Summary

With a new governor in Albany for the first time in 12 years, New Yorkers have high expectations for the future, seeing a rare opportunity for the state to reevaluate its policies in a wide variety of areas. This political moment provides a particularly exciting chance for state government to develop a coherent economic agenda that will allow all of New York's regions to realize their full potential. *One New York: An Agenda for Shared Prosperity* is the Fiscal Policy Institute's contribution to this much-needed effort.

One New York presents a package of interrelated economic and fiscal policy recommendations aimed at addressing the major economic challenges and opportunities facing New York State, which it groups into the following two categories:

- Helping New York's regions grow together. The state economy as a whole is expanding, but growth has been highly uneven.
- Strengthening and expanding the middle class. New York's economy is increasingly polarized between rich and poor with a shrinking middle class.

Helping New York's regions grow together

Enhance New York's productivity edge. New York ranks high among the states in human, technological and financial resources. The state's high productivity could be further enhanced by building a workforce investment system that makes lifelong learning a reality for all workers and that serves the evolving skill needs of the state's businesses. Workforce investments enhance profitability and are good for all New Yorkers.

State leaders can make sure that New York provides good value for businesses here, first and foremost by reducing the costs of health care coverage to businesses that provide it while achieving quality universal coverage. Business, labor and political leaders should work together to resolve the workers' compensation issue so they can get to other challenges. Energy costs and transportation costs can and should be restrained.

Make smart and strategic investments. Unguided by an economic strategy and unfettered by accountability, economic development program abuse has become rampant in New York, and expensive. The state, local governments and public authorities spend three to four billion dollars annually in the name of economic development. The state needs a complete overhaul of its economic development programs to make sure they produce good jobs. When possible, funds should go to benefit a cluster of firms or a region, not just one firm.

Business subsidies should be based on three core principles:

- Subsidies should go only to companies meeting certain minimum standards regarding pay and employment practices. Taxpayer funds should not be used to create or retain poverty-level jobs that generate additional taxpayer costs for such low-income safety net programs as Medicaid.

- Companies should be required to specify how the subsidies will improve workforce skills, opportunities and compensation.
- The government agencies involved should vigorously monitor performance to ensure compliance with promises of job retention, creation and quality.

Manufacturing jobs are still vital to the state's economy, particularly upstate, and many New York manufacturing industries are among the most productive in the nation. State policy should concentrate on keeping that part of the manufacturing base that has a competitive advantage here. State investments in the technology field should be carefully structured to ensure clear public benefits and good jobs.

Smart growth upstate. Upstate cities are losing population to the suburbs, undermining the quality of life everywhere as urban areas become troubled, suburbs sprawl and rural areas disappear. With their many assets, New York's cities can and should participate in the urban revival unfolding across the nation. Rural areas should be protected so they retain their character. Economic development should be concentrated in urban areas, taking advantage of their enormous, underutilized infrastructure. City schools should be improved so families don't think they need to move to find quality public education. City residents should have access to a diverse supply of housing for all income levels as well as the cultural amenities and public spaces that make cities attractive to residents and business.

Smart growth downstate. Downstate, the dynamic economy needs a better-integrated regional mass transportation system so that growth can continue and all can benefit. The Metropolitan Transportation Authority (MTA) must prioritize its expansion projects and Albany should ensure that the dedicated tolls and taxes in the downstate region more adequately support MTA capital needs to reduce the pressure on the MTA's operating budget. The state should more effectively use upstate manufacturing capacity to build the subway cars, buses and transit equipment serving the large downstate market. And mega development projects – which can eat up enormous subsidies – should be reexamined to assure that they enhance the underlying economy, that they fit with community goals and that the jobs they provide will be good ones.

Reduce pressures on the property tax. Over the past three decades, New York State has come to rely far too heavily on local taxes, particularly property taxes, to finance its services. State government should reduce the pressure on the property tax through four actions:

- Implementing a legitimate statewide solution to the Campaign for Fiscal Equity law suit.
- Increasing the state share of Medicaid and basing each county's share on its "ability to pay."
- Restoring the state's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
- Eliminating the fiscal disparities in the STAR program that disadvantage city school districts with high percentages of renter-occupied dwellings and high concentrations of needy children.

If these reforms were funded by restoring some of the personal income tax's lost progressivity and closing corporate income tax loopholes, the combined effect would be to make the overall tax system fairer. The result would be that those who can afford to (and who have been given big federal tax cuts in recent years) would pay more, and the middle class and low-income residents would pay less.

Strengthening and expanding the middle class

New York was for generations a place with a strong and growing middle class. In recent years, however, New York has experienced a middle-class squeeze. The cost of living is rising, but growth in wages is not keeping pace. Rebuilding New York's middle class requires providing educational opportunity for children and adults, and controlling the cost of living.

Sound basic education. The governor and the legislature should make substantial investments in education—the key to the ability of the next generation of New Yorkers to enter the middle class. The economic benefits of investing in education are enormous and varied. A sound basic education is crucial for everyone in an increasingly knowledge-based economy, and it is the essential preparation for students who go on to colleges and universities. Proper funding of education will also get at one of the central concerns of New York taxpayers. Reluctant to reduce school quality, districts that can afford it have repeatedly raised property taxes to pay for good schools. The result has been great inequality among school districts as well as too much pressure on a tax that is not based on taxpayers' ability to pay.

Opportunities for adults. To build and maintain a strong middle class, New York should improve higher education quality, access and affordability; build more effective labor markets and better career ladders; and expand opportunities for asset development. Labor markets could be much improved with solid minimum standards for wages and benefits, better enforcement of labor standards, and a modernized unemployment insurance system. Rungs in the career ladder include English and literacy classes; improved welfare-to-work programs; transitional jobs for people leaving welfare or the criminal justice system; and a strong safety net for New Yorkers not yet in the middle class.

Help with the cost of living. The governor and the legislature should address the pressure that the increasing cost of living places on middle and lower income families. By reshaping our tax structure, the middle class would pay less and those that can afford it would pay more. Other components of the high cost of living—energy, housing, health care, and retirement security—should be addressed as well. State policy changes should also help families strike a better balance between their work and home lives by helping with such issues as child care and family and medical leave.

* * *

One New York: An Agenda for Shared Prosperity draws on various budget, economic and policy reports that have been published by FPI over the years. It also brings together ideas from organizations and individuals around the state and nation. Some of the ideas presented in this discussion paper are ready for implementation; others need refinement. They all deserve review as part of a much needed reevaluation and broadly based discussion of New York State's economic policies. *One New York* is the Fiscal Policy Institute's contribution to this effort. As such, we view this discussion paper as a work in progress and welcome comments and suggestions in response to it.

The economic analysis that informs the recommendations presented here is from FPI's *State of Working New York 2006* report as well as earlier reports in the *State of Working New York* series, FPI's annual budget briefing books and its other budget, economic and policy reports.

All of FPI's reports are available on its website at www.fiscalpolicy.org.

Introduction

With a new governor in Albany for the first time in 12 years, New Yorkers have high expectations for the future, seeing a rare opportunity for the state to reevaluate its policies in a wide variety of areas. This political moment provides a particularly exciting chance for state government to develop a coherent economic agenda that will allow all of New York's regions to realize their full potential. *One New York: An Agenda for Shared Prosperity* is the Fiscal Policy Institute's contribution to this much-needed effort.

Overall, the New York State economy is strong and competitive. Among the nation's 10 largest states, New York ranks first in gross state product per capita and second (to New Jersey) in per capita personal income. In terms of competitiveness, New York's manufacturing productivity has grown faster than the national average since 2000, and among the nation's 12 largest manufacturing states, New York has the second greatest share of workers in high-skilled occupations. New York is also well positioned to compete in the world's increasingly knowledge-based economy: among the 10 largest states, New York ranks first in the percentage of people with graduate and professional degrees, and second in terms of the percentage with bachelor's degrees or higher.

But, such measures of the overall strength of the state's economy mask important disparities. While many New Yorkers are very well educated, New York has a relatively high percent of adults who have not completed high school. And while New Yorkers' income is high on average, median household income is not. Of the 50 states, New York has the widest gap between the income of the top and bottom quintiles of families. The state also has significant geographic disparities. The western, central and northern parts of the state have lagged the Hudson Valley and the downstate regions in job and income growth. Poverty rates also vary dramatically, with the upstate cities having much higher poverty rates than either their suburbs or the downstate cities or the state's rural counties.

Given these economic strengths and weaknesses, the governor and the legislature have an extraordinary opportunity to guide the state onto a course that will allow all of New York's regions to grow while ensuring that prosperity is more broadly shared. And to do so in a way that will promote the kinds of economic, social, and environmental conditions that will last for the next generation, not just the next election cycle.

Based on our review of the major challenges and opportunities facing New York State, we see them as falling into two categories.

- **Helping New York's Regions Grow Together.** The state economy as a whole is expanding, but the growth has been highly uneven. Significant portions of upstate New York have been economically stagnant in recent years. And the suburbs and New York City are growing in ways that are socially and environmentally unsustainable. In many rural areas, farms are under pressure from development.

- **Strengthening and Expanding the Middle Class.** New York's economy is increasingly polarized between rich and poor with a shrinking middle class. Parents are worried about what the economic future looks like for their children.

> Working families are being squeezed by increases in the cost of living that are outpacing wage increases. And families living in poverty have too few opportunities to work their way up and into the middle class.

Progress on these two fronts would go a long way toward knitting the state together as one New York—upstate and downstate; rich and poor; business and labor; city and suburb, immigrant and native-born; white, black, Hispanic, and Asian—where all families can afford a decent standard of living standard, in which all parents can expect their children to do better than themselves, and which is full of appealing, livable communities. A common vision should animate the state's economic policies: every region of the state should have a strong economy where all families share prosperity.

A Time for Ideas and Action. New York's public and private sector leaders should bring the state's tremendous resources to bear on the challenges and opportunities that face our state. The governor and the legislature should set ambitious goals and demonstrate vision, strategic thinking, skill at implementation, responsiveness to constituents, and real accountability. They need to work together to change the fiscal policies that have made property taxes too high, school financing inadequate in too many places, and put too much of the tax burden on the middle class.

Private sector leaders should encourage responsible business practices and promote the state's strengths as a place to do business. They should also advocate for policy changes that they see as important but too often some business groups paint an entirely negative picture in order to get their way on a particular issue. This kind of gloomdoggling—a term used by President Eisenhower—undermines the state's economic climate. State leaders also need to make civic and local elected leaders active partners in developing a realistic strategy for shared prosperity.

To realize this vision of shared prosperity, the new governor should steer a strong and steady course. But it will also require him to develop an effective and positive working relationship with the legislature. While the New York governorship is a powerful office, the governor cannot shape state policy alone. At the same time, Albany's much-publicized atmosphere of political horse-trading needs to be tempered by democratic decision-making that transcends party and regional differences. Existing and proposed policies should be evaluated carefully. And chosen actions should have workable accountability built in, so that taxpayers will know that their tax dollars are being well spent. Business can thrive in an environment where government is accountable, the economic rules are clear, and the skills of the entire workforce are unsurpassed.

The state will not accomplish shared prosperity in 100 days or even 1,000 days: it will take bold action matched by long-term perseverance. Exerting political leadership will require developing real buy-in from all the necessary players in state and local government, the business and labor communities, and among civic groups and community organizations.

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I. Help New York's Regions Grow Together

New York ranks very high in the nation in human, technological and financial resources. The state has a high per-capita income, and very high levels of productivity. The governor and the legislature should work hard to maintain this competitive edge for New York, and to extend it to all of New York's regions.

One important way to promote sustainable economic growth throughout the state is to enhance New York's already significant competitive edge in productivity. Qualified workers and good career paths go hand in hand and are mutually reinforcing—just as are, at the other end of the spectrum, a poorly educated workforce and deskilled, dead-end jobs. To continue to be competitive in today's quickly changing economy, state leaders should ensure that workers skills are constantly being upgraded in tandem with making sure jobs have real career ladders that allow for advancement.

Costs are important, too. New York is not and should not strive to be a low-cost environment, with low wages and low quality government services. But state leaders should make sure that New York provides very good value for businesses here. The single largest opportunity to provide better value on the dollar is in the cost of health care coverage to businesses that provide it. While the whole country waits for universal health care coverage, there are steps New York's leaders can take that will help reduce costs for businesses that provide health care while expanding health-care coverage.

Between state and local agencies, New York currently spends billions of dollars in economic development resources, yet there is no coherent strategic approach that guides what the state does. New York can get far more out of the same money if the governor and the legislature change the state's approach to economic development, so that it is guided by a sound long-term economic analysis rather than day-to-day politics. And, whatever money is spent should be far more transparent and accountable, making sure that the state is not subsidizing poverty-level wages, but instead creating good, middle-class job opportunities.

Although the upstate economy is often disparaged, the upstate economy is in fact quite varied. The Hudson Valley is growing at a good clip. Its residents are concerned, like those of metropolitan New York, about affordability and economic polarization, not economic stagnation. But the part of upstate west of the Hudson Valley is falling behind. As a whole, that region has experienced very slow growth and a heavy out-migration of young people. Tens of thousands of jobs paying middle-class wages have been lost from upstate cities, while new jobs pay far less and provide fewer benefits. Metropolitan Buffalo, Rochester, Syracuse, Utica, Binghamton, and Elmira have experienced "sprawl without growth," with the suburbs expanding and encroaching on rural areas even as the urban cores lose population and jobs.

The governor and the legislature should take advantage of a nationwide trend toward urban revival, and work to improve the upstate cities. They should concentrate economic development efforts in underutilized urban areas, not in the sprawling suburbs. They should make the downtowns of the region's cities thriving hubs of activity filled with jobs during the day and residents and visitors who will keep the streets vibrant and safe at night. They should help keep the suburbs peaceful and spacious, not clogged with traffic and chain stores. And they should undertake a concerted effort to restructure the agricultural economy so that farmland is preserved both for the local food supply and as a natural resource for the attractiveness of the region. The upstate economy doesn't need a miracle, but it does need conscientious, sustained attention from the governor and the legislature, with a steady hand on the tiller.

Downstate, the primary demand of smart growth is to build the infrastructure to accommodate continued economic expansion. Public transportation should be expanded according to a well-conceived regional transportation plan. The handful of mega projects in New York City—at Ground Zero, on Manhattan's West Side, in downtown Brooklyn—should be evaluated to make sure they are getting the maximum public benefit in terms of good jobs, community enhancement, and smart growth.

Finally, the governor and the legislature should fundamentally restructure the state's tax policy and its fiscal relationships with its localities to reduce the property tax crunch, to provide state funding to bring all of the state's schools up to a sound minimum standard, and to provide upstate cities with the resources they need to be strong partners in the revitalization of the upstate economy.

A. Enhance New York's Productivity Edge

What is New York's competitive edge as a region? According to economic development experts, the core factor determining competitiveness is the quality of the workforce.[1] That's good news for New York State, with its highly skilled workforce.

The critical issue for business isn't wages or costs, but productivity. How much value is produced for each dollar of cost? For upstate New York, any effective strategy should focus on the competitive edge the state already has by continually increasing our already high productivity. That means making smart investments in New York's highly educated and skilled workforce, and ensuring that all workers are able to develop skills, become productive and get ahead. We should also keep unproductive costs down. In this regard, employer-based health care costs stand out as a problem above all others. It is simply untenable to continue with a system under which some employers bear a heavy health care cost while others displace that onto the public sector and businesses providing employee health coverage.

1. Invest in the workforce—the key to growth.

The real strength of New York's economy, both upstate and downstate, has always been its productivity—the fact that value added through local production is high relative to labor costs. To build on this strength New York needs to enhance worker education and skills, thereby enhancing worker productivity.

Highly trained workers may cost more per hour, but they can still be more valuable as employees when they are also more productive. This is the virtuous circle New York should aim to achieve: good pay, high productivity, and low environmental impact through improved efficiency. The quality of the workforce—its skills, mastery of emerging technologies, and its versatility—is key to New York's quality of life and its attractiveness as a place to raise a family and as a location for businesses of all sizes to thrive. Workforce investments and leadership attract business and are also good for workers and for the public.

New York should be the first state to build a workforce investment system that makes lifelong learning a reality for all workers and that serves the evolving human resource needs of the state's economy and its businesses. Education and training should not just be for people who have graduated from college; it is a crucial part of ensuring continual skills improvement for everyone. (The *Middle Class* section deals more thoroughly with preK-16 education.)

Economic change is relentless. To maintain New York's productivity edge it must make sure that economic change is embraced, but in a way that translates into broadly shared

[1] See, e.g., Bill Schweke, "A Progressive Economic Development Agenda for Shared Prosperity: Taking the High Road and Closing the Low," Corporation for Enterprise Development, June 2006, p. 10.

gains. For that to happen, many workers, whatever the stage of their career, may need to upgrade their skills or acquire new ones.

Many students go straight from high school into their first job, without much, if anything in the way of help. The state's commitment to education should not end with high school; the state needs to make sure that young adults receive vocational guidance and develop the skills needed to be self-sufficient. Lesser-skilled workers may benefit from adult literacy, English classes if they are recent immigrants, apprenticeship training or other vocational training leading to occupational certification. New York's workforce development system should actively work with employers to develop career ladders and career pathways connecting education and training programs and support services to ensure upward mobility for entry level workers.[2] New York's community colleges have an essential role to play in preparing that part of the workforce that requires expert technical skills but not necessarily a four-year college education. Georgia, for example, provides its residents funding for two years of free postsecondary education and training at public institutions and technical schools.[3]

One of New York's failings is that it has not done very much to help displaced workers re-tool their skills for new jobs that can provide wages close to what they were earning before. This is particularly true for manufacturing workers who have been displaced by the thousands upstate in recent years. While New York's leaders at all levels should urge that Washington re-think our nation's trade policy and make a real commitment to assist workers, businesses and communities displaced by the surge in imports of manufactured goods, the state urgently needs to figure out how to retain and re-deploy skilled workers.[4]

Most of what the state now spends on worker training is federal funding under the Workforce Investment Act (WIA). WIA funding is fragmented and has been reduced significantly. New York should overhaul and build upon the current system to create a truly comprehensive offering of adult education and training options available through the full range of education, industry, labor and other non-profit training organizations. The modest level of current state funding for worker investments is only a fraction of the sum spent on economic development. Considering the need for expanded investments in workforce skills and vocational education it would be better for New York's long-term

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[2] Davis Jenkins, "Career Pathways. Aligning Public Resources to Support Individual and Regional Economic Advancement in the Knowledge Economy," Workforce Strategy Center, August 2006.

[3] Shawn Fremstad and Andy Van Kleunen, "Redefining Public Education for the 21st Century: Toward a Federal Guarantee of Education and Training for America's Workers," Clearinghouse REVIEW Journal of Poverty Law and Policy, May-June 2006, p. 98.

[4] Federal Reserve Chairman Ben S. Bernanke recently underscored the need for federal action in response to increased trade flows: "The challenge for policymakers is to ensure that the benefits of global economic integration are sufficiently widely shared—for example, by helping displaced workers get the necessary training to take advantage of new opportunities." Federal Reserve Chairman Ben S. Bernanke, "Global Economic Integration: What's New and What's Not?" Remarks at the Federal Reserve Bank of Kansas City's thirtieth Annual Economic Symposium, Jackson Hole, Wyoming, August 25, 2006. And in a speech last year, Senator Hillary Clinton noted that the other industrialized countries spend several times what the U.S. does on trade adjustment assistance providing not only re-training for a new job but income support and health insurance support and other benefits to workers losing their jobs because of trade.

competitive position to reallocate some of the current pool of economic development budget tax expenditures to fund workforce investments.

More comprehensive and timely labor market information, including on skill and training needs, would improve the functioning of the existing workforce development system. Accurate labor market information is critical since it affects the quality of labor supplied, and the compensation that labor receives determines the living standards for individuals and households and shapes decisions about investments in education and skill acquisition.

Because a globally competitive economy places such a premium on a skilled workforce, New York should fully integrate its workforce and economic development strategies and funding to raise the productivity of its workers and increase their earnings. A strategy for increasing workforce investment should take center stage in a comprehensive economic strategy for New York, as elaborated further in section B, below.

2. Reduce health care costs.

Rising health care costs represents one of the biggest economic challenges in the U.S. today. New York must tackle this issue as well as or better than other states if upstate is to maintain its productivity edge.

The cost of family health insurance premiums nationally rose fully 87 percent from 2000 to 2006.[5] Getting a handle on the out-of-control costs would benefit all businesses in the state, and would particularly help upstate, where manufacturing companies often provide health care benefits to active and retired workers.

The larger problem, however, is that the U.S. system of heavy reliance on employer-provided health insurance is costly and inefficient, and has created employment disincentives and acts to impede employment mobility. A national approach to universal health coverage is sorely needed and New York's political, labor and business leaders should make advocating for a universal, federal system a high priority.

The best solution is a universal national health system. Universal national health care is the norm throughout the industrialized world, where far less money buys far better health outcomes than in the U.S. There are substantial cost savings to be found—experts estimate $23 billion in New York State for 2003—in decreasing administrative costs, removing the incentives to "cherry-pick" healthy enrollees and dis-enroll sick people, and investing in preventative care.[6] Making health care a smaller and more predictable expense for business—or possibly taking it off business's plate altogether and financing it through the tax system—would be a huge advantage for New York's business climate.

[5] Kaiser Family Foundation Employer Health Benefits—2006 Summary of Findings, http://www.kff.org/insurance/7527/upload/7528.pdf.

[6] Himmelstein et al, "Costs of Health Insurance Administration in the US and Canada," New England Journal of Medicine, August 2003.

In the absence of federal action, several other states have begun to move forward on universal coverage. In California, a substantial study was undertaken to investigate the viability of a single-payer plan at the state level. The governor and the legislature should act swiftly to create a commission to evaluate alternative ways to achieve universal health care coverage in New York State. New York should be a leader in the effort to reduce costs to business while providing quality universal coverage.

At the same time, New York could take several partial steps to expand coverage and reduce costs. Partial steps might include: expanding assistance to small employers providing employee health insurance; linking economic development benefits to employee health care coverage; and increasing the efficiency of Medicaid spending by attacking fraud.

In addition, there are immediate steps the governor and the legislature can take that would reduce the cost of health care without sacrificing quality. For example, bulk purchasing of prescription drugs—on behalf of government programs, the uninsured, and interested private groups—would be one way to make a dent in one of the fastest-rising components of health care costs.

Albany leaders should also look into the way the state pays for uncompensated care. Today, under the state's Health Care Reform Act (HCRA), businesses that provide health care to their employees pay a health care surcharge[7]—of over 8 percent—to cover the cost of uncompensated care. This mechanism serves as a disincentive to hiring workers and puts employers providing health coverage at a further disadvantage relative to companies that do not. As part of a restructuring of HCRA revenues, consideration should be given to paying for the cost of uncompensated care out of state funds rather than adding on to the costs borne by employers providing health insurance.

New York's approach to expanding eligibility for public health care through programs like Family Health Plus is a literal life saver for many New Yorkers. This approach is somewhat problematic, since it winds up lifting a health care burden from some employers, but not from others. A further expansion of the system is worth considering. But more important would be exploration of single-payer, Medicare-for-all, and other types of universal health care systems.

3. Revamp workers' compensation to get better value.

Workers' compensation reform has been cast as critical to New York's economic performance. With workers' compensation, as in all other areas, the state must work to get the maximum value for the dollar spent.

The issue frequently has been blown out of proportion, distracting attention from the broader challenge of revitalizing the upstate economy. Business and labor should make it

[7] The surcharge is added on to medical and hospital bills and reflected in the health insurance premiums that employers pay.

a priority to work together with Albany leaders to resolve this issue, so that they can then get on to the other challenges facing the state.

While workers' compensation premium rates have been reduced by 33 percent since 1993, weekly benefits paid to injured workers have not been raised since 1992 and New York now has the unenviable distinction of having by far the lowest wage replacement rate in the nation.

There is plenty of room for increasing efficiency and compliance in the workers' compensation system. Administrative costs and much higher-than-average insurance company profits account for 36 percent of all costs, leaving too little for adequate benefits for injured workers.

In New York, unlike in some other states, most workers' compensation insurance is provided by private insurance carriers. The State Insurance Fund serves as the system's "provider of last resort" for employers that cannot get private coverage. Surprisingly, the State Insurance Fund has far lower costs than private insurers, despite the fact that it is the insurer of last resort, indicating considerable inefficiencies in the private system.

To improve the system, the state could place appropriate competitive pressure on the private insurance carriers by more aggressively marketing the savings available through the State Insurance Fund. A fair medical fee schedule should be established that preserves a claimant's right to select a provider.

Other needed efficiencies include exploring a regional rating system (the majority of accidents and costs are downstate), and increasing cost-effective investments in safety and training to reduce the number and severity of workplace injuries and illnesses. There is also a major non-compliance problem by employers who illegally "mis-classify" their employees as independent contractors to evade payment of workers' compensation premiums (this is particularly a problem in New York City's booming residential construction industry).

Years ago, the National Commission on State Workmen's Compensation Laws recommended that maximum benefit levels for injured workers should be pegged to 100 percent of state average weekly wages. All but four states use that standard, but New York's maximum benefit (which only 3 percent of injured workers receive) has fallen to 40 percent of the state's average weekly wage. New York's maximum benefit is only $400 while in other Northeastern states, maximum benefits range from $691 in New Jersey to $1,124 in New Hampshire. Workers' compensation reform should level the playing field among employers, and include limits on the extent to which private insurers profit at the expense of injured workers. New York should also act to restore benefits to levels that allow disabled workers and their families to maintain some semblance of their standard of living.

4. Promote savings through greater energy efficiency. Energy and transportation are significant costs for business and can be affected in many ways by public policy. In 2005, New Yorkers spent more than $53 billion for energy, a 20 percent increase over the prior year.[8] Businesses accounted for about one third of the state's energy consumption and transportation is even more significant as a source of energy demand and cost. In addition, businesses depend on an efficient and well-maintained transportation infrastructure for the movement of goods and people.

While the state currently has several programs for providing reduced-price electricity to some businesses, the shrinking supplies, volatile prices and environmental problems associated with fossil fuels, a more effective long-range strategy is to foster energy efficiency and the development of renewables.

New York has been a leader in promoting energy efficiency and clean energy through a modest system benefit charge on electricity generation. The New York Energy Research and Development Authority (NYSERDA) promotes energy efficiency by businesses and households and funds renewable energy development. To lessen reliance on imported fossil fuels, New York has an aggressive renewable portfolio standard for electricity, but it could do more to create a market for renewables such as biofuels. New York has also been in the forefront in the U.S. in encouraging greater energy efficiency in buildings. While NYSERDA is already active in several areas, New York could do more to support the development of a competitive energy services industry that would enhance energy supply as well as create new homegrown business and job opportunities.[9]

Under the Regional Greenhouse Gas Initiative, several northeastern states are developing a plan to reduce carbon emissions from electricity generation. Permits allowing reduced carbon emissions would be auctioned to utilities generating electricity. Electric prices would rise slightly as a result, a development that will create market pressure to improve efficiency. Auction proceeds should be used to foster energy efficiency development and to offset the increased costs to low- and moderate-income households and small businesses for which energy costs are significant.

Since the days of the Erie Canal, New York has seen the substantial economic development benefits that derive from a modern transportation infrastructure. A blue ribbon panel of New York transportation experts recently warned that "trouble lies ahead for transportation without bold leadership and substantial new investments …"[10] The expert panel urged the state to plan for system-wide improvements to address transportation bottlenecks, replacement and expansion needs, and "to achieve performance goals for mobility and reliability, safety, security, economic competitiveness and environmental improvement."[11]

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[8] New York State Energy Research and Development Authority, "Facing Energy Challenges in the 21st Century, A Three-Year Strategic Outlook 2006-2009," June 2006, p. 1.

[9] See, The Apollo Alliance, "New Energy for States, Energy-Saving Policies for Governors and Legislators."

[10] New York State Advisory Panel on Transportation Policy, "Transportation-Trouble Ahead. Findings and Recommendations of the New York State Advisory Panel on Transportation Policy for 2025," November 2004, p. 1.

[11] Ibid.

B. Make Smart and Strategic Investments

New York State, its local governments and its public authorities spend three to four billion dollars annually in the name of economic development. But these resources are not used well, with officials often throwing taxpayer dollars at companies in the hope that jobs will be created or retained. The same scrutiny being brought to bear on education and on safety net spending such as Medicaid, needs to be applied to economic development spending (and all spending for that matter) as well. New York simply can't afford to have any economic development program run amok such as reported recently by the Syracuse *Post-Standard.* The Syracuse paper documented how under the state's Empire Zones program, over $500 million a year is going to firms that simply reincorporated or reorganized in order to claim their workers were "new" employees.

Increasingly over the past two decades, economic and labor market transformations have eroded the base of middle-income "family-wage" employment, and slowed the growth in living standards for most of the workforce.[12] New York has not used its economic development spending to ameliorate these adverse trends or to encourage businesses to develop more beneficial employment practices.

The goal of state economic policy and investment should be to encourage the development of productive and good-paying jobs for New Yorkers, and the governor and the legislature can and should put New York's existing economic development resources to work to meet this goal. The state can best create favorable conditions for private business investment by providing a modern and well-maintained transportation system and physical infrastructure, and making it a priority to invest in the skills and education of its workforce. If the state is to provide company-specific subsidies, it should be to assist companies in becoming more productive in ways that directly benefit their workers. Any company-specific assistance should be provided as part of a transparent decision-making process and that incorporates essential standards and safeguards to protect taxpayer investments.

1. Develop and stick to a sensible, focused economic development strategy.

No well run business undertakes a major investment without having a coherent, long-range strategy. The Governor and the Legislature, with the assistance and input of the state's economic development and workforce development agencies, should develop a compelling and long-term economic strategy. This effort should begin with an objective assessment of the state's key economic resources—its human, environmental, financial, educational, and technological resources. The strategy needs to factor in the competitive position and viability of the state's leading business sectors. Planned public investments in transportation, communication and energy infrastructure should be part of the mix. Realistic projections should be made. The economic strategy should incorporate a

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[12] M.I.T. Sloan School of Management professor Paul Osterman analyzes these economic and labor market transformations in his book, Securing Prosperity. The American Labor Market: How It Has Changed and What to Do about It, Princeton, NJ: Princeton University Press, 1999.

comprehensive workforce investment strategy. As part of this process, the state's economic and workforce development agencies should seek local input in crafting recommendations that fit strengths and needs of each region of the state.

The state does not currently undertake an assessment of this kind. Instead, program fragmentation is the rule and decisions are made on a deal-by-deal basis, with little thought about how such investments fit into the longer-term picture.

A reassessment of New York's economic development spending should also be undertaken and coordinated with the strategy development process. This reassessment should begin with the creation of a "unified development budget" that includes all economic development-related spending by state agencies and authorities and all business oriented tax expenditures. Such a unified development budget would be the basis for examining the extent and effectiveness of current budget and tax expenditures, and would facilitate a reallocation of spending to support the state's priorities as articulated in an explicit economic development strategy.[13]

In order for this to work, the governor will have to work together with the legislature, to get full buy-in from the leadership of both houses, and to ensure that local interests and political horse-trading don't undercut the effectiveness of an economic agenda focused where it needs to be. Similarly, the governor will have to be disciplined and not give in to temptation to stray beyond the focused economic strategy for near-term political benefit.

2. Reform and re-direct business subsidy programs.

Unguided by an economic strategy and unfettered by accountability, economic development program abuse has become rampant in New York. All of the state's economic development programs should be redesigned with an eye toward how they contribute to the fulfillment of the state's economic strategy. Priority in allocating economic development resources should be given to investments that bestow their benefits broadly, on a multi-firm "cluster" or regional basis. ("Clusters" are described more below.)

Out of concern that economic development subsidy programs lack accountability and sometimes end up benefiting companies with questionable practices, more and more states are tightening up subsidy practices and requiring companies receiving assistance to uphold sustainable employment practices.[14]

New York should wake up and start making sure that taxpayer dollars are well-spent. For any economic assistance to individual companies, three principles should guide decision-

[13] See, Matt Hull, William Schweke and Carl Rist, "Budgeting and Economic Development Performance: A Guide to Unified Development Budgets," Corporation for Enterprise Development, December 2000.
[14] Good Jobs First, based in Washington, D.C., regularly updates examples of state and local governments that have established job quality standards as a condition for companies receiving economic development subsidies. Good Jobs First, *The Policy Shift to Good Jobs. Cities, States, and Counties Attaching Job Quality Standards to Development Subsidies,* Washington, D.C., November, 2003, http://www.goodjobsfirst.org/pdf/jobquality.pdf

making. First, assistance should be provided only to companies meeting certain minimum standards regarding pay and employment practices. Taxpayer funds should not be used to create poverty-level jobs that generate additional taxpayer costs for such low-income safety net programs as Medicaid. Second, companies should detail a workforce investment plan indicating how public assistance will be used to improve workforce skills, opportunities and compensation. Finally, the government agencies involved should vigorously monitor company performance and ensure compliance. Companies must pay back subsidies if they do not fulfill the terms laid out in a "clawback agreement". All state and local economic development programs need to be re-thought and re-structured with these objectives in mind.

An important dimension of the state's economic strategy should be to identify economic sectors and clusters that are critical to the state's economic future. Sectors are industries where New York has a competitive edge by virtue of its skilled workforce, the technology expertise of local academic or other research institutions, or market position. Clusters refer to the extended network of economic stakeholders that support a specific sector: the suppliers, customers, and infrastructure of institutions providing the workforce or contributing to a sector's technology base. Government can often play an important role in enhancing the performance of a sector or cluster by addressing instances of "market failure" where individual companies under-invest in the development of such things as worker skills, new technology, or market development because individual firms cannot sufficiently appropriate the benefits of those investments. The virtue of economic development investments that benefit entire sectors or clusters is that such investments both fill an important void left by the market and they can be spread over several companies throughout a locality or region.[15]

While all of New York's economic development programs need to be restructured, the Empire Zone program and the Industrial Development Agencies provide two examples of why reform is long overdue. The Zone program has been distorted by Albany politics to the point of absurdity. At their inception, Empire Zones were targeted to areas with concentrations of poverty. Today, under pressure from local officials, every county in the state has an Empire Zone, including the wealthiest counties. In recent years, criteria regarding Zone boundaries and eligibility have been stretched in dubious ways that have then been exploited by businesses never intended to profit from what was intended to be a "distressed areas" program.[16] The governor and the legislature should cut through Albany politics and re-target the Zone program to focus on high-poverty urban areas, and then rigorously monitor it to prevent future abuse and to make sure it is effective.

The governor and the legislature also should reform the state law governing the operations of New York's 100+ local Industrial Development Agencies (IDAs) to ensure

[15] Sector approaches to economic and workforce development have become fairly widespread in recent years. New York State, while one of the pioneers among states in identifying key sectors within and outside of manufacturing, has not used sector criteria to guide the allocation of economic development subsidies (industry-specific tax benefits, such as those for the securities or film industries, are the exception).
[16] Michelle Breidenbach, "Will next governor fix Empire Zone loopholes?" Syracuse Post-Standard, Oct. 22, 2006. www.syracuse.com/news/poststandard/index.ssf?/base/business-5/1159954200122080.xml

accountability and adherence to strategic economic development objectives including wage and benefit standards. As documented in several audits and other reports, IDAs routinely award tax breaks and other incentives to companies that fail to meet job creation or retention commitments. IDAs often subsidize profitable corporations that pay wages so low their employees qualify for public assistance. Meanwhile, the towns, school districts and counties losing tax revenue have no say in this process.

A comprehensive reform agenda for IDAs is required. Basic standards should be attached to subsidy deals that require companies to pay a living or prevailing wage and hire locally when possible. IDAs should adopt "clawbacks". In order to promote sustainable growth, IDAs should be prohibited, except under special circumstances, from providing assistance to projects in areas underserved by basic sewer and water infrastructure. Finally, IDAs should operate in a far more transparent fashion and engage citizen input in the subsidy award process.

3. Make sure New York keeps the manufacturing that works.

Globalization and structural changes in the economy have decreased the role of manufacturing in the U.S. Yet, that does not mean manufacturing—the traditional economic driver of the upstate New York economy—is irrelevant to the future of New York's economy. Most upstate areas derive one-fifth of total wage income from manufacturing and have average manufacturing wages over 40 percent above the average for all jobs. With relatively high skill levels, many of New York's manufacturing industries are among the most productive in the nation, and output per worker in New York manufacturing grew nearly 10 percent faster than the national average over the past five years.

As the economy undergoes structural changes, state policy should concentrate on keeping that part of the existing base that has a competitive advantage here, even as parts that don't have an advantage here move on.

New York's prevailing approach to helping manufacturing has been to dole out taxpayer subsidies on a deal-by-deal basis, in a process that has become fraught with favoritism and accountability problems. The focus of state policy should be on viable small and medium manufacturers with fewer than 1000 employees, and on requiring performance benchmarking and conditioning assistance on competitive wage, benefit and productivity standards. The Manufacturing Assistance Program New York recently unveiled starts to move in the direction of linking assistance to performance and workforce requirements but needs to go further to ensure that only promising companies with good standards receive benefits. For example, the Michigan Manufacturing Technology Center uses the following criteria in determining eligibility for assistance: above average productivity for that industry (productivity measured as value-added per full-time equivalent); average hourly wage three times the federal minimum wage; healthcare coverage for at least 85 percent of hourly workers and per covered worker employer health care premium of at least $5,000; and employee turnover of less than 20 percent.[17]

[17] For more on the Michigan center, see http://www.mmtc.org/Default.aspx.

4. Invest strategically in technological innovation, not on a scattershot basis.

Technology development tops the priority list for almost every state's economic agenda. Large technology-oriented public investments—such as the $1 billion-plus deal with Advanced Micro Devices that was approved in the closing days of the 2006 legislative session, or the state subsidies that helped lure Sematech North to the Albany area—should be carefully structured to ensure clear public benefits. These may be creation of spin-off firms, profits from an equity investment, royalties from the commercialization of technologies, or the creation of good jobs commensurate with the magnitude of public investment. The economic payoffs from technology investments are likely to be greater where there are local companies, institutions or a skill-base that contribute to an environment conducive to sustain innovation in that field.

Investments in research and development activities often are at least one step removed from an immediate commercialization opportunity. Because of this, it is particularly important that decision-making regarding such investment should be based on an independent peer review process.

C. Revitalize the Upstate Cities and Reverse "Sprawl Without Growth"

The United States is experiencing a broad and exciting urban revival. Cities are "cool" again, and young people are flocking to New York City, Boston, and San Francisco as well as to smaller cities such as Austin, Colorado Springs, and Grand Rapids, Michigan.

Yet New York's upstate cities—Buffalo, Rochester, Syracuse, Utica, Binghamton, Elmira—are losing population to the suburbs, a phenomenon that's been described as "sprawl without growth." This is a losing proposition for everyone. Sprawl means a loss in quality of life to suburbs, and rural areas suffer even more as farms disappear. Meantime, the regions as a whole are growing only slowly, if at all. And, with few new jobs that pay good wages, upstate is losing young adults to other parts of the country.

The governor and the legislature have an opportunity to reverse this trend. Upstate cities have great universities, major cultural institutions, and some stunning public parks. As urban planners would put it, these cities have "great bones." But more needs to be done. New York's upstate cities should not be allowed to follow the 1970s model of troubled urban areas surrounded by rings of sprawling suburbs. Instead, the governor and the legislature should help them lead the way toward a 21st century model of cities as the vital hub of growth in their region, with attractive suburbs and economically viable rural areas.

1. Concentrate economic development in urban areas.

When the state makes economic development investments, it should be a high priority to locate as many projects as possible in upstate cities. Today, there is an enormous and underutilized infrastructure in upstate cities. Roads, water supply, sewers, school buildings, and housing are all expensive to build. By concentrating new development in outlying suburbs areas, regions incur huge costs to build that infrastructure again while letting the existing infrastructure go to waste. Smart urban growth is the best way to help the region expand while preserving the character of rural and suburban areas that are being overrun by sprawl.

Though a strategy of concentrating development in cities may seem obvious, making it happen will require a break from business as usual. Frequently, projects have been located according to the short-term bargains. Instead, they should be located where they will provide the maximum long-term economic benefit.

Private developers should also be encouraged to invest in the cities rather than in the suburbs. There are currently counterproductive incentives that make it easier and cheaper to build on a site where no previous industrial development existed than to redevelop areas in the city that already have good transportation access and water, sewer, and electricity connections. In the suburbs, the cost of new (duplicative) infrastructure almost always falls on government, not the developer. The true cost of building in the suburbs should be made an explicit part of the development equation. Similarly, where there is past environmental damage, the state should increase its efforts to ensure that the people and companies that created toxic damage are the ones that pay for cleaning up that damage, so that it becomes more viable for a new developer to use the old site. In addition, funding for lead abatement and other environmental remediation should be made available to make sure old factories and houses get effectively re-used rather than abandoned.

2. Improve city neighborhoods by improving city schools.

It would be difficult to overestimate the impact that significantly improving urban schools would have on reviving cities. Making sure that all schools in the state meet a solid standard for sound, basic education—as recommended in Part II of this agenda—would dramatically improve the economic opportunities for urban families, draw middle-class families back into cities, and draw employers to areas where their employees want to live.

3. Ensure a diverse supply of housing.

A diverse and appealing mix of housing in New York's urban areas—suiting the needs of low-, middle-, and high-income earners—is a key to vibrant city life, upstate and down. State policies should aim at making sure each city has a full range of housing options.

4. Provide the amenities that make city living attractive.

Supplementing upstate's great large arts institutions should be a rich and varied array of smaller-scale cultural offerings that create a rich night life as well as reasons to go downtown. Art galleries, experimental theater, music clubs, and seasonal festivals, for example, could all benefit from an expanded state investment, producing both some successes among the artists, and an exciting urban environment where they are creating and presenting their work.

A greater effort should be made to make upstate cities "stickier" for students, so that more of the thousands of young, creative, ambitious people who stream through our upstate universities each year are inclined to stay after they get a great education. Increasing the supply of affordable housing, assistance with the high cost of health care, providing venues to develop and present work, and grants for arts projects, would all help make upstate cities appealing for young people.

Creating pedestrian walking streets has been an immensely successful strategy for many European cities. Upstate cities might consider ways to arrange parking in one area and in another a pedestrian street (which can still allow deliveries or local traffic at certain times of day). And, while public transportation is not a big part of the upstate urban environment, it does play a role in keeping cities accessible to people without cars.

Supporting local libraries should be a priority for state and local officials. Libraries foster communities and expand educational opportunities, and they bring life to the city. They are used widely by rich, poor, and middle class, by young and old, by immigrants and native New Yorkers.

One of the important factors that keeps people away from cities at night is crime. Throughout the country, there has been a significant reduction in urban crime. There is no reason New York's upstate cities cannot follow the pattern with real attention and resources brought to the problem. Without making the city streets feel safe, it will be extremely difficult to achieve any of the above goals.

5. Modernize the telecommunications infrastructure.

Bringing high-speed and wireless internet access to all underserved areas—urban, suburban, and rural—will make upstate areas more attractive and livable for young people and the increasing number of people and businesses that can't do without it. The governor and the legislature should establish a universal service fund, to which all providers contribute, as a way to support access to underserved areas where costs are otherwise prohibitive.

6. Revive New York's agricultural heritage and connect people to local food.

Focusing on New York's agricultural heritage can be good for urban residents, good for farmers, and a way to preserve the character of rural areas. In fact, in many of the cities that are experiencing an urban revival, local produce, farmers markets, and a culture of "slow food" (as opposed to "fast food") already have begun to take hold. This is good for the economy, the environment, tourism, public health, and quality of life.

There are still over 36,000 farms in New York, and most of them are small businesses with close connections to local economies. The governor and the legislature should seek synergies between New York farm products and other economic initiatives. For instance, the production of biodiesel produces excess heat that can keep greenhouses warm in winter. They should encourage schools, hospitals, prisons, and other public institutions to buy local food—for quality, to save on transportation, and to support the local economy. They should improve farmers markets and other forms of direct sales, such as on-farm markets and community-supported agricultural projects. They should expand investment in farmland protection through state and federal programs to purchase development rights. They should provide tax advantages for landowners who sell to farmers. They should expand opportunities for new farmers, especially among recent immigrants who may bring experience and new traditions.

Finally, parallel with a focus on farms should be attention to farm workers. The governor and the legislature should revise state labor law so that it includes farmworkers, who are now specifically excluded from many aspects of the law. Farm employers should be required to permit workers the option of one day off every week. The state should guarantee an 8-hour workday with time-and-a-half pay for overtime, collective bargaining rights, and should in general treat farm workers as workers, rather than exempting them from labor laws.

D. Invest in Smart Growth Downstate

The downstate economy is a strong engine for the entire state. The governor and the legislature should invest in the infrastructure that allows the local economy to thrive while guiding it toward "smart growth" rather than sprawl in the suburbs and gentrification in the city. For a region as large and mature as the New York City metropolitan area, the goal should be multi-centered growth. Economic activity can be concentrated in urban subcenters—in addition to midtown and Lower Manhattan, in such areas as Jamaica, Long Island City, Downtown Brooklyn or the Hub in the Bronx.

The jobs associated with downstate growth should include good middle-class jobs, not just jobs at the very high and very low end of the economy. And the communities affected by growth should be enhanced, not overrun—whether in the suburbs or in the urban core.

1. Improve and expand the public transportation infrastructure to accommodate economic expansion.

The dynamism of the downstate economy owes much to high density-related agglomeration economies, which in turn are made possible by the nation's most extensive mass transit system.

The Metropolitan Transportation Authority (MTA) has been hindered in recent years by a failure to effectively prioritize among competing system expansion projects and to adequately plan on a regional basis. By spreading limited funding over too many projects at the same time, the MTA has wound up not only delaying priority projects, but also jeopardizing funding for investments needed to maintain the system in a "state of good repair." Plans should be dropped to fund a LIRR connection to Lower Manhattan that would serve a relatively small number of commuters. This would help ensure that essential work moves forward on the Second Avenue Subway and the East Side Access project bringing the LIRR into Grand Central Terminal. Future transit improvements should be focused on better connecting urban centers within the downstate region, and should improve mass transit services within suburban areas, particularly on Long Island.

The MTA has also been hampered by reduced state and local subsidies that have forced it to borrow heavily, placing an extraordinary debt service burden on the system's operating budget. The system of dedicated tolls and taxes that funds mass transit is rooted in the principle that beneficiaries of mass transit should help pay for the system. Businesses and real estate interests clearly benefit from mass transit, as do car drivers and truck operators who experience much less surface traffic congestion than they would in the absence of an extensive mass transit system. Broad support exists among business leaders and transit advocates for increasing dedicated revenues in the downstate MTA service district to more adequately fund MTA capital needs. This would restrain what would otherwise be further increases in the debt service burden on the operating budget.

The mass transit system in the tri-state metropolitan region accounts for one-third of all transit riders in the U.S. This creates a substantial market for transit equipment that can benefit the upstate economy. The MTA and state economic development planners should more fully exploit this market potential to create and sustain transit-related manufacturing opportunities upstate. New York State should consult with other states in the Northeast and Great Lakes regions to explore the feasibility of developing a high-speed rail network linking major metropolitan economies in these regions. A regional high-speed rail network could more closely knit these economies together, while promoting environmental sustainability and upstate New York job creation opportunities.

2. Evaluate existing mega projects to make sure they give the maximum public benefit.

State government is heavily invested in a series of downstate mega projects, each of which ought to be examined carefully by the governor and the legislature to find opportunities to improve the public benefit. At Ground Zero, the immense public subsidy to commercial office development should be reexamined. One important goal should be to expedite the construction of what is commercially viable while minimizing public subsidy to office development that goes beyond the market. The retail development at Ground Zero is also an aspect that could be greatly enhanced with concerted attention from the governor and the legislature, ensuring that the jobs are good jobs, that the retail includes locally owned stores and an authentic sense of place, with national chains finding a place in the mix rather than overwhelming it.

In other mega developments, it is critical that the state break through a pattern of projects that are either paralyzed by community opposition or run roughshod over local community interests. Projects like the Hudson Yards on Manhattan's West Side or the Atlantic Yards development in downtown Brooklyn should be reexamined with an eye to local community input on the appropriate scale of development, to ensure that there are real community benefits, to create mixed-use and mixed-income neighborhoods, and to minimize public subsidy for private gain. As with all state-sponsored development projects, companies receiving subsidies should adhere to standards for wages and benefits, and for workforce investments. To ensure that good jobs are available to a wide range of New Yorkers, the governor and the legislature also should look actively in these and future projects for opportunities, such as those identified in the West Side development by Mayor Bloomberg's Commission on Construction Opportunities, to promote the hiring of traditionally excluded populations for apprenticeship positions.

E. Reduce the Pressure on the Property Tax

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 local property and sales taxes. This is particularly problematical for those localities that have relatively weak tax bases compared to their needs.

The governor and the legislature can simultaneously address these fiscal disparities and reduce the pressure that has been placed on the local property tax base by:

- Implementing a legitimate statewide solution to the Campaign for Fiscal Equity law suit.
- Gradually increasing the state share of Medicaid costs and basing each county's share of Medicaid costs on objective measures of its relative "ability to pay."
- Restoring the state's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
- Eliminating the fiscal disparities in the School Tax Relief (STAR) program that disadvantage city school districts with high percentages of renter-occupied dwellings and high concentrations of needy children

If these reforms were funded by restoring some of the personal income tax's lost progressivity and closing corporate income tax loopholes, the combined effect would be to make the overall tax system fairer. The result would be that those who can afford to (and who have been given big federal tax cuts in recent years) would pay more, and the middle class and low-income residents would pay less.

This would allow the state to grow together, rather than being fragmented into highly unequal segments. Local governments could reduce property taxes. Urban areas could leave the vicious circle of declining tax bases, higher tax rates, service reductions, and additional out-migration and enter a virtuous circle of new investment and lower tax rates. And services—including public schools—could be brought up to a solid basic standard in every community in the state.

Over the last 30 years, New York State has made many positive changes in its income tax system. These have included eliminating the marriage penalty by making the tax brackets for married couples double those of single taxpayers and instituting a state Earned Income Tax Credit to provide relief to low income working families. But it has also cut the top personal income tax rate by more than 50 percent—from 15.375 to 6.85 percent—and has eliminated the bottom two and three percent brackets. This has made the income tax much less progressive than it used to be while greatly reducing the revenue that the state would otherwise have collected from this fairest of all state taxes. We estimate, for example, that if, since 1972, the state government had indexed its personal exemptions and tax brackets for inflation rather than eliminating tax brackets from the bottom and the top of the rate schedule, 90 to 95 percent of all resident taxpayers would be paying less than they now pay but state revenues would be about $8 billion higher.

During this same period, there have also been a series of tax policy changes that have substantially reduced both the share of the state-local tax load carried by corporate income taxes, and the amount of revenue collected from this source relative to the size of the state economy. This decline has been exacerbated by the adoption of aggressive state tax "planning" by many large multi-state corporations. Revenues from state corporate income taxes have declined from 5.8 percent of all state-local tax revenues in 1977 to 2 percent in 2004. Relative to the size of the state economy, this decline was from almost nine-tenths of one percent (or 0.89 percent) of total personal income in 1977 to less than three-tenths of one percent (or 0.28 percent) of personal income in 2004. In constant 2004 dollars, state corporate income tax revenues dropped from $4.0 billion in 1977 to $2.0 billion in 2004. In the years since 2004, there has been a bump up in corporate income tax collections due mainly to audits related to administrative and statutory changes that closed the door on a number of the more abusive corporate tax planning activities.

In 1987, as part of a comprehensive tax reform that was actively supported by the Business Council of New York State, a corporate alternate minimum tax was established to end the situation that then existed of many large, profitable, multinational corporations not paying anything in corporate income taxes. But beginning in 1994, a number of significant loopholes that favor such multi-state corporations have been added to New York's corporate AMT—which was intended to blunt the impact of such loopholes in the regular tax. And, in 1999, the AMT rate was cut from 3.5 percent to 2.5 percent. As a result of these changes, most large multi-state corporations are paying taxes at the 2.5 percent rate (and at a lower effective rate if they benefit from the Empire Zone program or other changes that allow a firm to reduce its tax liability to below even the AMT rate), while in-state businesses are paying at a rate of 7.5 percent or, if they qualify as small businesses, 6.5 percent.

In order to accommodate the loss of revenue from changes in the state's personal and corporate income taxes, New York has substantially reduced state revenue-sharing with its counties, cities, towns, and villages and reduced the share of school district budgets covered by state aid. These changes have, in turn, put greater pressure on local property and sales tax bases. And when taxpayer resentment over these tax shifts grew, the state responded with the STAR program. Despite its inequities, STAR has been welcomed by homeowners. But it provides no relief to tenants or landlords (who in some combination or other pay property taxes at rates at least as high as homeowners), small businesses and others who are affected by increasing property taxes.

These fiscal policies—reducing the top tax rates on personal income while cutting state aid to localities, and putting pressure on the property and sales tax bases—combine to have a particularly negative effect on upstate New York. The New York City metropolitan area has the overwhelming majority of the state's high-income taxpayers while upstate New York has a much smaller share of high-end taxable income than it has of the state's population and service needs.[18]

[18] Moreover, by reducing the progressivity of the income tax, New York State has given significant relief to the many high income residents of *other* states who work in New York State (primarily in New York City). In 2003, even with these tax reductions but with that year's temporary increase in the top rate, nonresidents

1. Restore "revenue sharing."

In 1971, New York State took a giant step forward in combating high property taxes and bringing stability to local budgets by beginning to share 18 percent of its income tax revenues with its general purpose local governments on a formula basis that took need, tax effort and ability-to-pay into consideration. This program was enacted into law following a very effective multi-year lobbying campaign by the mayors of the state's six largest cities (New York City, Buffalo, Rochester, Syracuse, Yonkers and Albany). This campaign succeeded in calling attention to the "overburden" faced by the state's cities, which were home to most of the large tax-exempt institutions (such as hospitals, museums, and libraries) that served the residents of entire metropolitan areas but which depended on city services without making a commensurate tax contribution.

In announcing the compromise that implemented Revenue Sharing, Governor Rockefeller referred to it as Urban Aid because of its "rough justice" bias in favor of the cities—half of the Revenue Sharing pool was to be shared with all general purpose local governments including the cities, while the other half was to be shared just with the cities.

In 1979, Governor Carey changed the sharing formula from 18 percent of personal income tax revenue to eight percent of all tax revenue. That change would have been fine, but the following year he got the legislature to cut the allocation and the following year to freeze it. Over the course of the next quarter century there have been some occasional increases in revenue sharing but more often there have been cuts or freezes. The result is that the state has fallen further and further behind the eight percent standard and the amounts that individual cities receive are the product of year-to-year percentage increases and decreases (and occasional efforts to address some glaring inequities by giving greater increases to some cities) rather than a rational formula.

The upstate cities have been hurt the most by the state's abandonment of this important approach to intergovernmental fiscal relations. While New York City has 52 percent of the state's poverty population, it also has a significant concentration of wealthy individuals and a local income tax, thus buffering it from the impact of cuts in revenue sharing in ways not available to the upstate cities.

State "revenue sharing" with counties, cities, towns and villages should be increased, gradually but steadily over the next 10 to 15 years, until it is restored to the statutory level of eight percent of state tax revenues. In addition, a new and transparent needs-based formula for the allocation of "revenue sharing" among the state's general purpose local governments should be enacted and honored.

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accounted for about 16 percent of New York State's personal income tax revenue. That year the average income on the returns of full-year New York State residents was $52,598 while that of full-year nonresidents was $238,529.

2. Adopt a legitimate statewide solution to the Campaign for Fiscal Equity law suit.

As part of a statewide solution to the Campaign for Fiscal Equity law suit, New York State should increase the average share of school budgets covered by state aid, while ensuring that all school districts have the resources necessary to provide their pupils with an adequate public education without having to maintain inordinately high property tax rates. The overall average share of school budgets covered by state aid should be gradually increased until it reaches the level of the late 1960s. In 1969, state aid to education covered about 48 percent of school district budgets. In the last several years, this figure was down to 37.5 percent. Both of these figures are statewide averages—the result of state aid covering a much smaller portion of school budgets in wealthier communities and much larger portions in needy school districts.

No school districts would be helped more by a legitimate statewide solution to the Campaign for Fiscal Equity lawsuit than the school districts serving the upstate cities. Both the Campaign for Fiscal Equity's analyses and the Standard & Poor's models submitted to the court by the governor show the upstate city school districts as all having substantial unmet needs. In addition, the CFE plan for implementing a statewide solution shows that if the responsibility for funding the adequacy level were divided between the state and its local school districts on a uniformly applied "fair share" basis, the upstate city school districts would have additional resources while their real property taxpayers would be relieved of some of the significant tax effort relative that they are now making relative to their "ability to pay."

3. Eliminate the fiscal disparities in the STAR program.

In the mid-1990s, the burden being placed on local property taxes began to generate increased resentment by voters. Governor Pataki responded in January 1997 by proposing the School Tax Relief (STAR) program. Phased in over a four year period beginning with the 1998-99 school year, the STAR program is now delivering over $3.3 billion per year to the state's school districts to write down the property taxes on owner-occupied, primary residences. The program is very popular, despite its flaws, because it addresses a real problem.

- STAR is more costly than it needs to be, given the limited amount of relief that it is delivering to those who are truly overburdened by property taxes. This is because it gives a little bit of relief to all homeowners—whether or not their property taxes are high relative to their incomes.

- Since STAR provides relief to homeowners based on county averages, the amount of relief that particular homeowners receive is not related to their property tax bills, or their incomes, or, ideally, the relationship of their property tax bills to their income. As a result STAR violates both of the basic principles of tax fairness. It violates the principle of "horizontal equity" because it does not give the same amount of relief to two taxpayers with the exact same incomes and the exact same property tax bills if they happen to live in different parts of the state.

STAR also violates the principle of "vertical equity" because two homeowners in the same school district, one with a much higher property tax bill relative to his or her income than the other, both receive the same dollar benefit.

- The STAR program distributes aid to school districts in a way that undercuts the equalizing nature of the school aid system. Under STAR, state aid is provided to school districts not on the basis of enrollment and student need but on the basis of the number of owner-occupied primary residences in the school district, the median home value in the county or counties in which the school district is located, and the school district's property tax rate.

- The STAR program is also flawed in that it provides relief only to homeowners. This ignores the fact that tenants also pay property taxes. While homeowners pay property taxes directly, tenants, through their rental payments, carry a substantial portion (usually estimated as being more than one-half) of the property taxes paid by the owners of their buildings. But under STAR, neither tenants nor landlords receive any relief. Only the owners of owner-occupied primary residences are helped by STAR. The result is that city school districts with high percentages of renters receive very little STAR aid per pupil compared to the state average. The percentage of owner-occupied primary residences in the state's 15 largest city school districts is 33 percent; in the rest of the state it is 75 percent. [19]

Regular state aid has a significant advantage over STAR in that it serves to write down the property taxes on all real property (from tenant-occupied residences to small businesses), not just on owner-occupied primary residences. And, when it comes to providing targeted relief to those homeowners and renters who are truly overburdened despite a general reduction in the property tax rate, a circuit breaker program is much more effective than STAR. Under a circuit breaker program, homeowners and tenants can receive a refundable income tax credit equal to all or a percentage of the amount by which their property taxes (or the portion of their rent attributed to property taxes) exceed a specified percentage of their incomes. New York has a circuit breaker but the income, home value, and monthly rent limits for this program have not been increased since the early 1980s. The result is that the number of people who qualify for New York State's circuit breaker credit has been steadily declining.

The governor and the legislature should undertake a comprehensive reevaluation of all of the state's real property tax relief programs and work toward an integrated circuit breaker-like variation of STAR that is consistent with the principles of horizontal and vertical equity. In addition, since STAR is both a property tax relief mechanism and a way to deliver state revenue to school districts, it should also be integrated with a

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[19] The percentage of renters in New York City (70 percent according to the 2000 Census) is higher than that in Buffalo, Rochester and Syracuse (57, 60, and 60 percent, respectively). But when the governor's original STAR proposal was making its way through the legislative process, New York City identified this problem and was able to secure the authorization of the New York City STAR Supplement (a state-funded reduction in the New York City personal income tax) as part of the original authorizing legislation.

legitimate statewide solution to the CFE decision to ensure that it is fair to the upstate cities.

4. Base each county's share of Medicaid costs on its relative "ability to pay."

In the financing of major social safety net programs, New York State has traditionally required each county to cover the same share of total costs whether it has a high number of needy individuals or a low number; and regardless of how strong or weak its tax base is relative to its obligations. The result is that the property tax rate or the sales tax rate necessary to cover the local share of such programs is very low in counties with low poverty rates and very high in counties with high poverty rates.

Medicaid is currently the largest of the social safety net programs that are financed in this way. Until 2005, the local share of Medicaid expenditures was based solely on the kinds of services involved with no recognition of the fact that some counties have very large numbers of needy families relative to their tax bases while other counties have relative small numbers of needy families relative to their tax bases. In 2003, for example, it took the equivalent of a local property tax rate of approximately $6 per thousand of full value of taxable real property to cover the local cost of Medicaid in Fulton and Montgomery counties (older industrial areas in the Mohawk valley) but only about $1 per thousand of full value in more prosperous counties such as Nassau, Putnam and Saratoga.

The fact that New York State requires its county governments (and New York City) to cover a relatively large portion of the non-federal share of Medicaid has generated a lot of attention and advocacy in recent years. But what has not gotten the attention it deserves is the fact that New York's state-local cost sharing formula includes no recognition whatsoever of variations in the ability to pay of different counties. This is in contrast to the federal government which varies its share of Medicaid costs on the basis of the states' per capita income levels. While the federal sharing formula could be improved by taking a measure of need (such as the states' poverty rates) into consideration, it at least takes into account some measure of the various states' ability to pay.

In 2005, the Governor and the Legislature established an across-the-board cap on the rate (3.5% in 2006, 2.25% in 2007, and 3% in 2008 and subsequent years) at which a county's Medicaid responsibilities can increase, with the state government picking up the difference. For property taxpayers, this is clearly better than no relief at all but, over the next several years, this approach will increase rather than decrease the relative overburden faced by counties with high levels of need relative to their tax bases. The governor and the legislature should move to ensure that as the state takes over a greater and greater share of total Medicaid costs that it base each county's share of Medicaid costs on its relative "ability to pay" by adopting a cost sharing formula that includes measures of both need (e.g., poverty rate) and ability to pay (e.g., per capita income).

5. Fund these reforms by restoring some of the personal income tax's lost progressivity and closing corporate loopholes.

New York State should undo some of the changes in the state's Personal Income Tax structure that have simultaneously shifted some of the burden from the top to the middle and reduced the revenue available to fund revenue sharing, school aid, Medicaid and other important state-supported programs and services. Corporate tax reform provides another source of revenue to offset the increases in revenue sharing, school aid, and the state share of Medicaid costs necessary to reduce the local property tax burden.

II. Strengthen and Expand the Middle Class

New York was for generations a place with a strong and growing middle class. Though some were excluded from the benefits of growth—often on the basis of race and ethnicity—the ranks of the middle class expanded throughout the decades following World War II. Being in the middle class meant earning a decent wage, but it also meant being comfortable and secure: knowing you had health care coverage and a pension you could count on, that you could pay for your kids to go to college, and that your mortgage would go down as you paid it off rather than going up as you borrow more and more against the value of your house.

In recent years, however, New York has experienced a middle-class squeeze. The cost of living is rising, but growth in wages is just not keeping pace. Longtime employees are finding their benefits cut and wages growing more and more slowly. People who are laid off wind up unable to find new jobs or re-employed at jobs with lower salaries and even less job security. For young people there tends to be a lot of jobs at the low end of the spectrum, and a handful at the very high end.

Rebuilding New York's middle class should be a high priority for the governor and the legislature. They should make needed investments in education, which is the best way to help the next generation move into the middle class of tomorrow. They should address the increasing cost of living by reshaping our tax structure, so that the middle class pays less and those that can afford it pay more. They should make smart investments and policy changes to help New Yorkers with the high cost of energy, housing, and health care. They should make sure that workforce and economic development investments result in better career ladders, so that New Yorkers don't get stuck in dead-end jobs. They should make sure our welfare system provides real opportunities and supports to help recipients work their way into the middle class. And they should ensure that families can strike a good balance between their work and home lives by helping with such issues as daycare and family and medical leave.

A. Provide All of New York's Children with a Sound Basic Education

The evidence is clear: Education is the key to the ability of the next generation of New Yorkers to enter the middle class. Investing in education is not just the right thing to do for New York's children, it's also a smart way to make sure the New York workforce is prepared for good jobs in the future.

New York is home to some of the best schools in the country. But at the same time, far too many of our schools are struggling with old textbooks and oversized classes. The governor and the legislature should make a substantial commitment to making sure that every school in the state meets a sound basic standard.

The economic benefits of investing in education are enormous and varied. A good basic education is crucial for everyone in an increasingly knowledge-based economy, and it is the essential preparation for students who go on to colleges and universities. It will provide better life chances for the children of families that are disproportionately left behind in New York's economy: low-income families, people of color, and new immigrants. As any homeowner knows, good schools are strongly connected with property values. And, corporate experts know the same thing: executives are much more likely to locate business in a place where they feel comfortable sending their kids to school.

Proper funding of education will also get at one of the central concerns of New York taxpayers: the increasing pressure that has been placed on the property tax.

Getting the funding of schools right will be good for New York's economy today, and good for the economy of tomorrow. But, this is not a small task given that New York is currently the state with the greatest disparity in school funding between schools in high-poverty districts and those in low-poverty districts.[20]

The Campaign for Fiscal Equity (CFE) has extensively documented the kind of investments that would bring schools up to snuff, in its lawsuit to force the state to meet the basic minimum standards for education guaranteed in the state constitution. The court requirement that the state resolve the funding issues raised in the CFE suit paves the way for the new governor and the legislature to make a substantial new investment in schools around the state.[21]

New school funding on the order of magnitude envisioned in the CFE decision would mean very real and substantial increases for needy school districts throughout the state. The CFE suit originated in New York City, but that is not the only school system that

[20] "The Funding Gap 2005," The Education Trust, Winter 2005. Available on the web at www2.edtrust.org.
[21] In 2006, the state finally addressed the portion of the court decision in the CFE suit related to New York City's school facilities needs. But the state has not yet addressed the part of the decision dealing with the school system's operating budget.

needs help. Large classes, underpaid teachers, and out-of-date learning materials are also a problem in hundreds of other urban, rural, and even some suburban school districts in the state. It is generally agreed by citizens and government officials alike that a statewide solution to the CFE suit is necessary, to ensure that *all* of the districts in the state can provide a quality education for all children.

Money alone will not solve the problems of New York's schools. However, without an adequate level of overall funding, our schools don't have a chance. While there are debates about educational philosophy—and schools may choose different approaches—there's across-the-board agreement that qualified teachers, smaller class sizes, and drawing middle-class families back into schools are critical to making schools work.

Quality education is an essential piece of New York's economic puzzle. If we want a strong and growing middle class, we need to have a world-class educational system.

B. Create Better "Up Ramps" to the Middle Class

To build a strong middle-class society, New York must have plentiful opportunities for advancement, so that newcomers and people at the bottom of the economic spectrum can move up to join the ranks of the middle class. In 2005, 2.76 million New Yorkers were living in households with incomes below the official poverty threshold, including 923,000 children. And, while immigration has grown along with the New York economy—especially in New York City, where nearly half of all workers are immigrants—too often immigrants get stuck in low-wage jobs rather than rising to join the middle class. As Robert Kennedy used to say, "We can do better."

1. Improve higher education quality, access and affordability.

To have a strong middle class, New York needs to be constantly improving and increasing access to a wide range of options for higher education. New York is well positioned to do this, given its extensive system of high-quality public and private colleges and universities. Making sure there is enough funding for the state's public higher education systems is critical to ensuring that they are truly world-class—recruiting and retaining the best faculty (as regular professors, not temporary or part-time adjuncts), expanding research, continually upgrading facilities, and keeping tuition reasonable.

The governor and the legislature also should place a high priority on strengthening New York's existing Tuition Assistance Program. This program, which provides grants to qualified New York residents, helps middle-class families afford the cost of higher education, and gives many low-income students a real chance to earn a college degree. The state also should provide much-needed funding increases to its highly successful higher education opportunity programs (EOP at SUNY campuses, HEOP at private colleges and universities, and SEEK at CUNY campuses). And the state should pay as much attention to success as to access, making sure there are support systems in place to help students so that they don't wind up dropping out of the programs they start.

2. Build more effective labor markets and better career ladders.

An essential part of creating better "up ramps" into the middle class is expanding opportunities for low-income workers and those facing the biggest challenges in getting ahead. A more effective wage floor under the labor market is critical, as are other labor market policies that are fair to workers and support them in improving their skills and earning power. Several policy actions are needed.

Set solid minimum standards for wages and benefits. Anyone who works hard should be rewarded fairly. New York currently has the greatest degree of income polarization in the country—in part because of the large number of people working hard but making poverty wages.[22] On January 1, 2007, New York State's minimum wage will increase to $7.15 an

[22] See "Pulling Apart: An Analysis of Income Trends in New York State," Fiscal Policy Institute (January 26, 2006). On the web at: http://www.fiscalpolicy.org/PullingApartNY2006.pdf

hour. This is the third step in a three-step increase enacted in late 2004. But even at this level, the purchasing power of the minimum wage in New York will be some 16 percent lower than the minimum wage in 1970. The governor and the legislature should continue raising the minimum wage in reasonable increments until it reaches its July/August 1970 levels ($8.47 an hour, in January 2007 dollars) and then join the ten other states that index the minimum wage to the Consumer Price Index so that its purchasing power is not eroded by inflation.

Improve enforcement of labor standards. A good climate for business and workers requires that all businesses have to play by the same rules. But in many industries across the state, workers report violations of core employment laws. Currently, the state Department of Labor struggles just to respond to individual complaints. Instead, the state should conduct proactive investigations into high-violation industries, in order to send unscrupulous employers the signal that New York's labor laws are being enforced fairly and consistently.[23] In addition, the state should curb abuses related to employers who misclassify their workers as "independent contractors," or who operate on a strictly cash basis in order to avoid the cost of payroll taxes, unemployment insurance and workers' compensation insurance.

Modernize unemployment insurance to give workers a chance to find good jobs. New York's Unemployment Insurance (UI) system has not adapted to a changing economy and workforce. Fewer than half of the unemployed receive assistance and when they do their benefits are not sufficient to support their families. The maximum benefit has been stuck at $405 since 1998. As a result, New York's UI benefits replace a smaller share of wages than the benefits in 48 of the 50 states. In addition, unlike 13 states and the District of Columbia, New York does not provide any additional benefits to workers with children. An arbitrary $20 million cap on the extension of benefits for workers participating in approved training programs leaves thousands of unemployed people unable to develop new skills to advance their careers. Currently, employers pay unemployment insurance on only the first $8,500 of wages. A reasonable increase in the portion of wages on which this tax is paid could readily finance needed enhancements to the system. In an economy of frequent layoffs and job changes, it is important for workers to have the ability to look for a new job that will not be a step down, as too often occurs, but a step up in life—lifting a family into the middle class or establishing it there more solidly.

Provide more English classes for speakers of foreign languages, and more literacy classes and basic education. In a state with such a large recent immigrant population, everyone who wants to attend a class in English for speakers of other languages (ESOL) should be able to do so. Today, however, there are not nearly enough classes available to

[23] For more information on a labor standards enforcement agenda, see the forthcoming report, "Protecting New York's Workers: Recommendations for Better Wage and Hour Enforcement by the State's Department of Labor." The report was prepared by the Campaign to End Wage Theft, a collaboration of community organizations and advocacy groups, and coordinated by the New York Immigration Coalition and the Brennan Center for Justice at NYU School of Law.

meet the demand. According to the State Education Department, only two percent of the need for ESOL classes is being met. "Demand is so high that in New York City programs use lotteries instead of waiting lists to ration access to instruction."[24] Improved language skills are often a prerequisite for further skill development and success in the labor market. The governor and the legislature should rectify the current shortage of English classes so that anyone who doesn't speak English has plentiful opportunities to learn.

In addition, New York should strengthen support for adult literacy classes and basic education. New Yorkers without these critical skills cannot compete in 21st century labor markets.

Improve the welfare-to-work transition. In August 2006, the Census Bureau released new data estimating that 2.76 million New Yorkers are living in poverty, including 923,000 children. That same month, the nation observed the 10th anniversary of welfare reform—the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. In the past ten years New York has seen a dramatic decline in the number of families receiving cash assistance but there has been no parallel decline in the number of poor families. Many families have left the welfare rolls but they have not found jobs paying them enough to move out of poverty and up into the middle class.

When Congress reauthorized the federal Temporary Assistance for Needy Families (TANF) program in February 2006, it significantly tightened the work participation rate requirements by changing the base year for the caseload reduction credit from 1995 to 2005. New York now has a choice. It can meet the new federal requirements by pushing people out of the social service system *or* it can meet those requirements by extending assistance to more working families who are struggling to make ends meet. While the new TANF rules that took effect on October 1 are more rigid than the current rules, New York still has some flexibility to invest these federal resources in programs and services that help move families out of poverty.

The governor and the legislature can increase the state's work participation rates while providing meaningful assistance to working poor families by establishing a state supplement to the federal food stamp program for the working poor who are not currently receiving any state assistance. These families are already reporting their work efforts to the state but do not currently count in the state's work participation rate because they are not receiving "state funded" assistance. Work participation rates can also be increased by establishing a paid transitional employment program that combines time-limited, wage-paying jobs with real work, skill development, and supportive services, to enable participants to transition successfully from welfare into the labor market.

New York can provide education and training to thousands more recipients than are currently enrolled in these kinds of programs by using existing training programs funded by TANF and Workforce Investment Act funds. Federal regulations allow only 30 percent of recipients to be involved in vocational education or to attend high school (if

[24] Jean C. Stevens, "Update on Redesign of New York's Adult Education System," State Education Department memo, September 26, 2006.

high school aged), but only 11 percent of New York's public assistance recipients are currently enrolled in these kinds of programs.

Fund transitional jobs for people leaving the criminal justice system. With tens of thousands of people leaving state prisons every year, it is foolhardy to assume they will disappear or make their way into middle-class life on their own. The state should increase its funding for programs that create real avenues to good jobs for people leaving the criminal justice system.

Strengthen the safety net for New Yorkers not yet able to join the middle class. While much can and should be done to help families move from poverty to the middle class, some people in New York will continue to need cash assistance from state and local governments to survive: those working but not able to earn enough to achieve self-sufficiency and those with multiple barriers that prevent them from working. Providing a decent safety net for these families is one mechanism to break the cycle of poverty and give these families the possibility of moving out of poverty. Asking these families to survive on a welfare grant that has not been increased for 16 years condemns them to live in a crisis mode in which there is never enough to pay all the bills and put food on the table. It is hard to focus on job training, career counseling and substance abuse treatment plans, let alone parenting, when you are worried about whether or not the electricity will be shut off this weekend.

New York should increase the basic welfare grant and the energy allowances to at least reflect the changes in the cost of living since the last increase in 1990. New York should also further liberalize the earned income disregard in order to continue assistance to families and individuals who are working but still living in poverty.

New York must also invest federal resources from the TANF block grant in programs and services designed to identify and remove the barriers that prevent current recipients from finding and keeping decent jobs. Whether or not these barrier-removal activities “count “ as work under the new federal regulations, New York’s policies should be sufficiently farsighted to recognize their long-term value and work to ensure that recipients receive the services they need. If there are not sufficient funds in the TANF block grant to finance the expansion of these programs, New York should move funding for the state EITC out of the block grant and treat lost revenue from the tax credit like other tax expenditures.

3. Expand opportunities for asset development.

One of the hallmarks of the middle class is the acquisition of assets—a home, some savings, a business. After World War II, government programs like mortgage interest deductibility and the GI Bill were crucial to the post-war middle class boom. Today, New York is behind many other states in providing for matched savings accounts that help lower-income wage earners save money to buy a first home, start a small business, or go to college. Typically, this type of program matches a portion of an individual's savings on a sliding scale, and provides financial literacy and asset-specific training for low- to moderate-income families.

C. Help with the Cost of Living

1. Reduce taxes on the middle class.

For some three decades, state income tax rates have been falling. Why, then, do so many voters believe that they're paying more in taxes? The answer, incredibly, is that most of them are. They are paying higher property taxes. And, unless they are in the top income brackets, they are not paying lower income taxes despite frequent and aggressive tax cuts.

In the course of three decades, New York State has shifted the tax burden so that wealthy families pay less, while middle-class families pay more. It has done this by cutting the top personal income tax rate by more than 50 percent—from 15.375 to 6.85 percent—and by eliminating the bottom two and three percent brackets. This has made the income tax much less progressive than it used to be while greatly reducing the revenue that the state would otherwise have collected from this fairest of all state taxes. We estimate, for example, that if, since 1972, the state government had indexed its personal exemptions and tax brackets for inflation rather than eliminating tax brackets from the bottom and the top of the rate schedule, 90 to 95 percent of all resident taxpayers would be paying less than they now pay but the state would be collecting about $8 billion more in revenue each year. The governor and the legislature should begin moving in the opposite direction by stretching out the tax brackets and gradually increasing the top rates. The revenue produced by such changes should be used to fund the types of reforms discussed earlier in this report that would reduce the pressure on local property and sales tax bases.

Property tax increases in recent years came about through an increasingly familiar chain of events. Overambitious cuts in the income tax for top earners led to a reduction in state funding for local services, most importantly schools. Local governments wound up raising taxes to make up for the loss. The only taxes over which they have control were regressive local property and sales taxes. Round after round of income tax reductions to the top income brackets led to higher and higher local property taxes. The result was a less progressive income tax, high property taxes, increasingly unequal local funding because the tax base of different counties varies so substantially, and strained local governments.

The state tax system is now so distorted that the governor and the legislature should undertake a comprehensive review. An essential part of what the governor and the legislature should do, however, is to help localities to reduce property taxes by restoring progressivity to state income taxes. In addition, the state government could give localities more flexibility in how they collect taxes, allowing them to move away from over-reliance on the property and sales taxes and instead raising funds through a local version of an income tax. The governor and the legislature should consider giving county governments the authority to levy a "piggyback" income tax for county government purposes. Such a tax could be structured like the income tax that the city of Yonkers is currently authorized to impose. The use of such an option would make a county's revenue system more progressive and place less of the burden on middle and lower income residents.

2. Address high energy costs with forward-looking policies.

Every New Yorker has been hit hard by rising energy prices over the past year. What the state needs is not a short-term fix, but a long-term view that helps consumers adapt to an environment in which higher prices are likely to continue.

Reassess flawed stopgap measures. The state should reassess its adoption of stopgap measures, such as capping the sales tax on gasoline sales, which seem to waste money in a fruitless attempt to hold down prices rather than making smart investments in alternatives and in conservation.

Improve energy efficiency. New Yorkers are already more efficient overall than most states in their energy use, and we should constantly strive to meet higher standards of energy efficiency. Home energy costs can be reduced by constructing new high-performance houses, and by retrofitting existing homes. While construction costs may be a barrier, smart investments can result in long-term savings. Initial costs are often amortized within just a few years, and the governor and the legislature can help find innovative ways to finance the up-front expense that are paid off through the long-term savings.

The governor and the legislature also should review the state's efforts to encourage the use of energy-efficient home appliances. Standards were set for many appliances in 2005, to great benefit to the state, but there is a good deal further New York can go. California has led the way in setting standards that constantly ratchet up the efficiency of home appliances. The Center for Policy Alternatives suggests that setting standards for just ten products can reduce statewide energy use by up to five percent; California currently sets standards for 43 commercial and consumer appliances. Setting standards saves consumers money in the long run (even more so in a high-energy-cost environment), it's good for the environment, and it can create jobs in firms that are smart in making goods for this market.[25]

Increase the amount and use of energy assistance funding. Enhanced energy assistance should be offered to those who cannot afford to pay these higher prices through the well-respected Low Income Home Energy Assistance Programs (LIHEAP) and the expansion of low income utility rate structures. LIHEAP benefits should be increased to protect the state's low-income population from the higher energy burden imposed by higher fuel and electricity prices and targeted to help improve the energy efficiency of homes rather than simply subsidizing current costs. The current hodgepodge of low income rate programs among the state's various utilities should be rationalized on a statewide basis and recalibrated to assure that the benefits provided are sufficient to fulfill their intended

[25] See *New Energy for States: Energy-Saving Policies for Governors and Legislators,* (Madison, WI: The Apollo Alliance, 2006). The document, together with information on the New York Apollo Alliance, is available on the web at apolloalliance.org.

purpose. Utilities should be required to expand outreach and the use of automatic enrollment systems to assure that all qualifying households benefit from these rates.

Do for wind power what we do for solar. New York State already allows residents who invest in solar power to "run the meter backward" by feeding extra electricity they generate back into the electric grid. Incongruously, the state currently does not allow this for wind power. That should be changed, so that all forms of renewable energy are encouraged, and are on an equal footing, and so the maximum number of residents can take advantage of the savings in generating their own renewable energy.

Reassess New York's shortsighted approach to utility regulation. There is growing evidence that New York's current approach to regulation of telephone, gas and electric utilities has injured rather than helped consumers. It has permitted and sometimes even encouraged price increases out of an ideologically driven interest in bringing more providers to the market. At the same time it has failed to recognize and respond to underinvestment in system maintenance, which can lead to blackouts and brownouts. The governor and the legislature should refocus the state's utility regulation to make sure New Yorkers get good service and smart investments at a good price.

3. Help reduce the cost of housing.

Almost two out of every five mortgage-paying homeowners in New York State have housing costs in excess of 30 percent of their incomes—the federal standard for affordability.[26] Worse still, in 2005, 48 percent of New Yorkers had rental costs in excess of 30 percent of their incomes. Only two states, California and Florida had a higher percentage of renter households in this situation.

In New York City, the housing market is extraordinarily tight. Good-quality, mixed-income housing is desperately needed. A strong mixed-income housing program would provide opportunities for low-income people, so they don't wind up tripled-up in apartments or pushed into homelessness. And it would provide opportunities for middle-income people who want to stay in the city, but are frequently pushed out by the extraordinary and disproportionate cost of housing.

In the suburbs and the Hudson Valley, the challenge is to make sure the rapidly rising cost of homes doesn't push out the people who make the community diverse and vibrant: young people, seniors, longtime residents, teachers, or health-care workers, for example.

In upstate cities, the main challenge is to focus growth on the urban core rather than the suburbs; there are many areas where an increase in housing prices and more local residents would be welcome to local homeowners. Rehabbing in the city rather than new construction in the suburbs would be far more efficient, making use of the existing infrastructure and building up the weakened tax base.

[26] Housing costs are defined as mortgage payments, taxes, insurance and utilities.

The governor and the legislature should increase the state's investment in housing programs that work. The state already has a Low-Income Housing Trust Fund. The governor should increase its budget, and put in place a focused, multi-year, multi-billion dollar commitment with specific targets for new affordable housing, for rehabbing of housing stock, and for preservation of existing preserve mixed-income housing. The housing coalition Housing First!, for instance, has called for a $13 billion commitment over ten years, to create or preserve 220,000 residences.

The governor and the legislature should ensure clean, efficient governance of its housing programs. During the 12 years of the Pataki Administration, the Housing Finance Agency, for instance, became a pay-to-play agency with private developers who made favorable political contributions reaping the benefits of HFA funding, according to the Pratt Center for Community Development. The Pataki administration had no coherent strategy for developing mixed-income housing, and in fact wound up subsidizing projects that were primarily luxury units. The governor needs a clear strategy with specific targets, and a professional staff and real safeguards in place to ensure decisions are made based on that strategy and not political expedience.

A central part of the state's strategy for mixed-income housing should be strengthening the network of nonprofit housing developers. Upstate, a central part of the housing strategy should be rehabbing existing housing stock in the cities. For-profit developers have been inclined to build new housing in greenfields in the suburbs; it is nonprofit developers who have been willing to take on the more complex task of rehabbing buildings in the cities. Downstate, the network of nonprofit developers is stronger, but it needs more financial support to meet the intense pressures of the downstate market.

New York State should preserve and expand its stock of affordable middle-class housing. The Mitchell-Lama program, started in 1955, was one of the best ways the state has encouraged affordable middle-class housing. The governor should preserve and build on that history rather than letting it slip away. In a similar vein, HFA and SONYMA can establish new programs to create multi-family housing affordable to working families in all counties of the state, as proposed by the New York Housing Conference.

The Mitchell-Lama program was a highly effective mechanism for creating sustainable middle-class housing, under which—in exchange for a modest state benefit—developers would set limits on profits for turning over apartments, and limits on the income of residents. Over 100,000 residences in the state were ultimately created under this hugely successful program. Today, unfortunately, the program is threatened by its own success: as the housing becomes highly valuable, developers are increasingly tempted to take housing out of the program—a scenario that is now being played out with thousands of affordable units of Mitchell-Lama housing in Stuyvesant Town and Peter Cooper Village in New York City. Saving middle-income housing should be a real priority for the governor and mayor of New York City, who otherwise risk pushing a vast number of these residences out of the reach of working families by letting them be sold at market rate for a one-time boon to owners.

Rent regulation is an important vehicle for keeping housing affordable at a range of price points. The state's most expensive housing market, New York City, has the bulk of rent-regulated residences, but there are also rent-regulated apartments in 55 municipalities around the state, including Westchester, Nassau, and some upstate cities. In today's superheated downstate market, the state is quickly losing affordable apartments to vacancy decontrol and other ways of taking apartments out of rent stabilization. These decontrol policies should be reversed.[27]

4. Take on the soaring cost of health care.

For most families, no item in their budget is increasing faster than health care. A recent report by the Kaiser Foundation found that for the seventh straight year, premiums for employer-based health insurance rose at an extraordinary pace. Since 2000, inflation has jumped 18 percent and the amount that workers pay toward family health care coverage has skyrocketed 84 percent—from $1,619 per year in 2000 to $2,973. But those with employer-based health insurance are the lucky ones. More than 2.6 million New Yorkers had no health insurance coverage during 2005. Millions of New Yorkers had no protection from the escalating costs of prescription drugs because their health insurance did not include prescription drug coverage.

The governor and the legislature should make it a high priority to get health care costs under control and to extend coverage to all New Yorkers. As described in section one, while the clear solution is a universal national health care plan, there are numerous steps the state can take along the way. Studying the possibility of state-based single-payer and other universal health care options is an action more and more states are taking. New York should lead the way toward action on this front. In Canada, the universal health care system began in individual provinces before it was extended to the nation as a whole. The same might well be possible in the U.S.

In addition, there are measures right now that could improve health care coverage and reduce costs for individuals. Bulk prescription drug purchasing, elimination of the surcharge for uncompensated care, and expansion of programs like Family Health Plus—all described in section 1—would help families and businesses alike.

5. Improve retirement security.

Pensions are a source of increasing insecurity and cost pressure for all workers. Those who have pensions through their employer are being asked to contribute increasing

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[27] For more information on housing, see, for instance: Pratt Center for Environmental Community Development (Time for A Gut Rehab: How the Next Governor Can Rebuild New York State's Affordable Housing Legacy), Housing First! (Housing New York's Future: Community Development and Homes for All New Yorkers), New York Housing Conference (2006 Comprehensive Housing Bill), and Tenants and Neighbors (www.tenantsandneighbors.org).

amounts to it, and those who don't are straining to set up and manage their own 401(k) or similar account.

The governor and the legislature can help by setting up a single fund to which all New Yorkers can contribute pre-tax dollars. The fund might offer options for accounts that offer defined benefits as well as traditional retirement accounts. The cost savings to people making contributions could be considerable, since fees on a large single fund would be substantially smaller than individual accounts. As with the state's common retirement fund for state and local government workers, professional management of a large state fund has shown that returns will be greater than small investors typically receive. Of course, a voluntary state retirement system for all New York workers would in no way substitute for the current system of public sector pension plans.

D. Make It Easier for Families to Balance Work and Family

Over the past three decades, barriers have been removed and the culture has changed in ways that have encouraged women to work outside the home in far greater numbers than before. Yet, our social structures have not fully changed to accommodate this trend. First and foremost is addressing childcare and time off for family and medical leave. And there is then still a long way to go to make sure New Yorkers feel they have a healthy balance between their work and family lives—and even a little time left over for leisure, community, and civic participation.

1. Expand child care options and increase child care quality and affordability.

Whether a family has two parents or one, it is more likely that these parents will be working than staying at home. In New York, 78 percent of single parents are in the labor force and in three out of five two-parent families both parents are in the labor force. Half of New York women who have given birth in the past 12 months are in the labor force. Women's employment patterns are becoming more like men's, but public policies and employers have not filled in the gap between the time and care that families need and the time workers have available to meet those needs.

As more women and mothers enter the workforce, child care has become an increasingly important public policy issue. Many families, particularly those with modest incomes, have trouble financing its cost. Affordable, quality and convenient child care not only serves working families but it raises the productivity of workers and helps business.[28]

Sadly, the need often goes unmet. In 2002, the Census Bureau found for the U.S. as a whole that over 6 million (15 percent) school age children (5 to 14 years of age) cared for themselves on a regular basis. Even among 5 to 11 year olds, 2 million children (seven percent of all children in this age group) were left unsupervised after school. This lack of supervision is associated with increased drug use, juvenile delinquency, and crime.

The governor and the legislature should improve access to child care by providing sufficient state funding to meet the needs of all of New York's eligible working families. They should also move to serve more families by expanding subsidy eligibility levels from 200 percent to 275 percent of the federal poverty line expanding statewide the demonstration projects that currently exist in New York City, the Capital District, Oneida and Monroe Counties. The child-care subsidy rules should be revised to ensure that no family is expected to contribute more than ten percent of its income in co-payments.

Last year TANF funding for child care was distributed to local social services districts as a part of the Flexible Fund for Family Services (FFFS) block grant rather than as an

[28] See research compiled by the Cornell University Linking Economic Development and Child Care Project, http://government.cce.cornell.edu/doc/reports/childcare/.

earmarked state funding stream. Social services districts used this new flexibility to decrease support for child care by $20 million. In order to protect children and families from further cutbacks, TANF funding for child care should be removed from the FFFS and once again distributed as funds that can only be used for child care.

A major emphasis should be placed on improving the quality of daycare. The federal and state governments have a number of programs that tackle some of these issues, but many problems remain. The quality of care provided to a child in his or her early years can be critical to the child's development. Early childhood experiences, particularly in the first three years of life, are crucial. Brain development is heavily impacted by early environmental factors, which can promote or hinder learning skills from adolescence through adulthood. A healthy and safe early childhood setting can also prevent cognitive and behavioral disorders later in life, some of which are irreversible. A number of factors contribute to low child-care quality. Inadequate training, low pay, and high turnover among child care providers all play a major role. On average, child-care teachers earn just slightly over $14,000 a year. Child-care workers also receive minimal or no benefits and often earn no paid vacation leave. The result is a very high turnover rate.

At a minimum, the governor and the legislature should re-establish the Child Care Professional Retention Program which paid bonuses to child care workers ranging from $300 to $2,000 per year depending on the workers position and whether or not the worker obtained a recognized certificate, credential, or diploma in the field of child care or early childhood education within the 18 month application period.

As part of the state effort to provide all children with the opportunity to receive a sound, basic education, New York State should make universal pre-K a reality. In 1997 the legislature provided $200 million for pre-K with the promise that the funding would grow to $500 million. Funding did not grow beyond the $200 million per year until last year, and even that increase to $250 million left funding for the program far short of the amount necessary to enable the pre-K program to reach all school districts and all three and four-year olds in New York State.

Expand funding for after-school programs. After-school programs are a critical way for parents who work a full day to make sure their kids are in a healthy and stimulating environment between the end of school and the end of the work day. The state already has programs to fund after-school, yet they have never been funded at the level they should be. The governor and the legislature should make sure every school has a good array of after-school programs available.

Expand funding to summer programs. School kids have a summer vacation of over two months, while parents rarely have more than a couple of weeks off. Expanding the existing state funding for summer programs is a way to help parents give rich and meaningful opportunities to their children without putting added strain on their work.

2. Require and fund a system for paid family and medical leave.

Over the past 30 years, the numbers of people who work and also care for children and parents have increased dramatically. To respond to this situation, Congress passed the

Family and Medical Leave Act (FMLA) in 1993 which required employers to provide leave to care for one's own serious health condition, including pregnancy, and to care for a new child or a seriously ill child, spouse or parent. While the FMLA protects an employee's job, seniority and health benefits during a maximum 12 weeks leave from work, it does not replace wages. Among workers who need family and medical leave but do not take it, 78 percent said they cannot afford to miss a paycheck. For those who do take leave without pay, the financial repercussions can be drastic, forcing some to declare bankruptcy and apply for public assistance. The rest of the developed world has been providing paid family leave for years—the United States and Australia are the only industrialized countries without paid family leave.

New York is one of five states that requires employers to provide temporary disability insurance (TDI). TDI provides partial wage replacement to employees who are temporarily disabled for medical reasons, including pregnancy- or birth-related medical reasons.

The New York State Paid Family Leave Coalition has developed a bill, "Families in the Workplace Act," which expands the TDI system to provide for paid family leave to care for a new child (newborn, adopted or foster) or an ill child, spouse or parent. The bill also mandates employer provided sick leave for the purpose of meeting with a child`s teacher or administrator, for the purpose of bereavement in connection with the death of an immediate family or household member or to provide care to an immediate family or household member. The New York State Paid Family Leave coalition estimates that the cost of providing this additional benefit through the disability insurance system would be a mere $14.33 per worker annually or 27 cents per worker per week.

In California, workers can get up to six weeks of partial pay a year while taking time from work to care for a new child or sick family member through a system managed by the State Disability Insurance (SDI) program.

In addition, expanding New York State's temporary disability insurance program to provide paid family leave could reduce the amount of public funds that go to welfare, unemployment compensation, food stamps, Medicaid and other public programs that support workers who give up jobs to care for family. The increased cost to employees and employers would be very low.

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One New York

With a new governor in Albany for the first time in 12 years, New Yorkers have high expectations for the future, seeing a rare opportunity for the state to reevaluate its policies in a wide variety of areas. This political moment provides a particularly exciting chance for the state government to develop a coherent economic agenda that will allow all of New York's regions to realize their full potential. *One New York: An Agenda for Shared Prosperity* is the Fiscal Policy Institute's contribution to this much-needed effort.

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