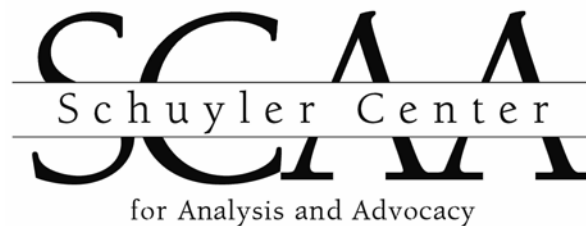


**Testimony before the Joint Fiscal Committees
on the SFY 2009-10 *Executive Budget*
Economic Development Hearing
February 3, 2009**

**Submitted by
Karen Schimke, President and CEO
Schuyler Center for Analysis and Advocacy**



*Shaping New York State public policy
for people in need since 1872*

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My name is Karen Schimke and I am President and CEO of the Schuyler Center for Analysis and Advocacy (SCAA). The Schuyler Center for Analysis and Advocacy (SCAA) has provided a strong advocacy voice for our state's most vulnerable citizens for over 135 years.

By now you have probably sat through a number of budget hearings. I expect that you have heard two consistent themes: **sacrifice** – what the state must do to close a \$15 billion deficit; and **pain** – the harsh consequences of the budget cuts and other measures proposed to close that deficit. I am here today to talk about a third theme: **opportunity**.

Fiscal crises represent an opportunity to overturn the conventional way of doing business, to sweep away programs based on concepts that no longer make sense, to explore new models that work more effectively. Nowhere is that opportunity greater than in the field of economic development.

My starting point today is Governor Eliot Spitzer's Commission on Higher Education. I realize that higher education is not the subject of today's hearing, but bear with me.

The Commission originated in conversations between Governor-elect Spitzer's staff and upstate leaders. They complained that, despite a variety of tax breaks and economic development schemes, much of upstate New York was still flat on its back. The colleges and universities of the SUNY system represented their most promising and undernourished resource. But years of systemic underfunding and over-regulation had left these institutions far behind their counterparts in other states. The Commission's preliminary report noted: "We are falling behind because our public institutions of higher education have too little revenue, too little investment and too much regulation."

The Commission's report has not resulted in any changes in state policy. Funding for higher education has actually dropped substantially since the preliminary report was released in December 2007. Yet the Commission's fundamental argument fits into the findings of modern economic development experts.

Fifty years ago, physical capital mattered most: availability of coal and oil, the capacity to build large assembly-line factories, and so on. But the industrial economy has given way to the information age. Today, human capital matters more. Our state's most effective economic development strategy is to build human capital. The point here is not to dismiss traditional

economic development strategies – bidding for large manufacturers, holding down business taxation, and so on. These strategies still matter. Realistically, however, the Empire State will never be as cheap a place to do business as Vietnam, China or the Mexican maquiladora zone. To compete, New York must help employers to add value, and developing a skilled workforce is the most effective way to add value. That’s why other nations are investing so heavily in expanding their higher education sector.

The Legislature has an important role to play in strengthening the state’s commitment to human capital. Government agencies and legislative committees have a way of narrowing their focus to specific programs and funding streams. Instead, consider the needs of the employers and workers you want to assist without the administrative preconceptions that typically frame such discussions.

We believe the Administration is thinking too narrowly about the state’s role in strengthening local economic development. The Administration proposes slashing operating aid to community colleges by 10% in the current fiscal year, and then continuing that 10% cut into the next fiscal year. The results can be seen in Table 1:

Table 1: Proposed Budget Cuts to CUNY and SUNY Community Colleges, in Millions of Dollars

Proposal	2008-09	2009-10	Total
CUNY Reduction	\$4	\$17	\$21
SUNY Reduction	\$11	\$46	\$57
Total	\$15	\$63	\$78

The administration proposes to cut the Tuition Assistance Program (TAP) by up to 20% for over 100,000 low-income working college students. Some students will lose as much as \$1,000 annually in TAP grants. The administration also proposes eliminating TAP eligibility for all students who study part-time for one or more semesters, which would essentially eliminate TAP as a resource for working students. See Table 2 below. These cuts will damage our state’s economic prosperity for years to come, at a time when foreign competitors are investing heavily in their own colleges and college students.

Table 2: Proposed Budget Cuts to the Tuition Assistance Program (TAP), in Millions of Dollars

Proposal	2009-10
Pro-rate TAP eligibility	\$21.7
Require Full-Time Attendance to Receive TAP	\$ 4.6
Total	\$26.3

In the international struggle for competitive advantage, cutting spending on community colleges and financial aid is the equivalent of unilateral disarmament. Meanwhile, the *Executive Budget* continues to spend vast amounts of money on programs less essential to the state’s economic prosperity.

We believe the state should cut spending on conventional economic development programs substantially and redirect the savings to strengthen our public higher education system. Some specific recommendations follow:

- ***Abolish the Empire Zone program.*** Spending on Empire Zones has ballooned from \$30 million in 2000 to \$582 million in 2008. Yet the Empire Zone program is notoriously ineffective. “On balance, the Empire Zone program has been a failure, and in some ways a gross failure,” stated Patrick Foye, until recently the downstate chairman of the Empire State Development Corporation.

Governor Paterson has proposed structural changes in the Empire Zone programs that would have the effect of reducing projected spending from \$610 million to \$338 million in FY 2009-10. But these changes would have a disproportionate effect on upstate rural communities. More importantly, the program itself is poorly conceived, and tweaking it again will not energize the upstate economy. We appreciate that taxes on business in New York State are too high, and when revenues recover the state should cut them across the board. But what New York needs right now – the upstate region most of all – is a high-performance public higher education system.

- ***Defer establishment of the GAINS Fund and R&D tax credits.*** These programs may well prove effective. But protecting the state’s existing assets should be our top priority. Spending \$100 million on new programs while drastically slashing financial aid and community college funding would be a very unwise choice.
- ***Regionalize the Industrial Development Agencies (IDAs).*** Many local governments now operate IDAs, leading to wasteful and counterproductive competition between them. Since the state’s leading economic development agencies have recently harmonized their regional definitions, we should take the opportunity to merge IDAs into regional entities operated collaboratively by Workforce Investment Boards.
- ***Review all spending on economic development projects.*** Policy makers should demand outcome data on all economic development programs. Is it successful? How is success defined? How long should a program have to show evidence of success before it can be eliminated in favor of programs with proven effectiveness? 2009 could be an excellent year to clean out the economic development closet.

Ultimately, the cornerstone of New York’s economic prosperity will be a trained workforce. As President Barack Obama recently noted: “Eighty percent of America’s fastest-growing jobs require at least a 2-year degree.” We should be prepared to cut less vital economic development programs to protect New York’s community colleges and financial access to those colleges.