

NEW YORK STATE
EMPIRE STATE DEVELOPMENT CORPORATION
DOWNSTATE



TESTIMONY ON:
Economic Development Capital Funding
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Eliot Spitzer
Governor

Patrick Foye
Co - Chairman, ESD

Good morning. Nine months ago, I appeared before the Legislature to discuss Empire State Development's budget for the current fiscal year. At the time, I spoke about some of the philosophic underpinnings of our broad plans for reshaping New York State's economic development efforts. Today, I'd like to speak about the changes in Empire State Development's operations, how that has translated into new directions for some of our major projects and about the capital funding needed to continue the state's economic revitalization.

In particular, I want to present details of a proposed innovative statewide economic development capital program that we're calling the Investment Opportunity Fund. This new program takes account of the complex puzzle that is economic development.

As former Treasury Secretary Robert Rubin once noted, government's economic development mission must be greater than supporting individual companies. "The role of government," Rubin told the Bretton Woods Institute, "is to create the sound policies – from fiscal discipline to good public education – that will attract capital and promote investment, while at the same time pursuing social, environmental and other non-market objectives."

That's what the Investment Opportunity Fund aims to achieve.

This fund, and how it will be administered, is a logical extension of the new direction we brought to Empire State Development when we took over earlier this year. We have infused our activities and our actions with strategic thinking. We are committed to linking our spending -- especially capital expenditures -- to long-term strategic goals.

For the most part, our strategy centers on supporting industry sectors tied to the Innovation Economy, a direction the management consulting firm AT Kearney predicts alone could create 330,000 well-paying jobs statewide by 2014. That would be double the rate of job growth in New York between 2002 and 2006.

While we plan to continue the large, transformational capital projects in New York City, our efforts will also include adding dynamic new projects in all regions of the state. No matter where, our spending decisions must be strategically aligned. And we will only succeed if our dollars prime the pump for significant private investment.

In a moment, I'll give you an update of how this new strategic thinking affected our actions on those major projects and how we have allocated some of our existing resources to meet our strategic goals.

But Empire State Development can only do so much with existing resources. To make the quantum leap into positioning New York as a leader in the 21st century Innovation Economy, we need additional funds and new metrics for dispensing them. As AT Kearney noted in a report that is available on our website, New York already has to play catch-up with other states that have seized on the exciting promise and financial rewards of an economy rooted in state-of-the-art technologies. The only way to equal and pass those states is strategically to devise, implement and fund additional programs.

Therefore, Empire State Development seeks to secure funding in the next capital budget for a significant new statewide capital initiative we call the Investment Opportunity Fund, as well as support for other various strategic regional initiatives.

A New Fund for the New Strategy

As I noted, economic development is a complex matrix that encompasses traditional support of existing businesses and broader community-based imperatives.

The Investment Opportunity Fund targets projects that achieve many of those goals simultaneously -- and strategically. The fund will coordinate with local development initiatives, targeted especially to depressed communities. The fund's activities are geared toward maximizing private investment. And finally, an annual review will determine whether the investments by the fund are meeting desired goals.

The fund will consider projects that:

- Contribute to urban and suburban downtown revitalization initiatives and stimulate growth.
- Provide large investments in public infrastructure that will catalyze economic growth.
- Generate momentum pivotal to bringing about significant additional investment.
- Create or retain jobs or business activity within a municipality or a region.

Those categories encompass a wide variety of projects. They include the “traditional” support to individual companies that individually advance economic development or whose presence serves as a magnet for other industry growth.

Think, for an example, of this year’s major capital investment, the \$300 million to help International SEMATECH move its headquarters from Austin, Texas, to Albany. Beyond International SEMATECH’s own capital expenditure and the promised 450 jobs, International SEMATECH’s presence here will be a powerful force drawing the consortium’s individual members and other related companies to the expansive area encompassing upstate and downstate that today calls itself Tech Valley.

The Fund could also lend support to business incubators, office or mixed-use development, waterfront redevelopment or cultural or large-scale community development projects.

The project sponsor may also run the gamut from private, for-profit firms to community development organizations to not-for-profit corporations formed on behalf of a sponsor to municipal agencies.

We're looking for transformative projects. The cost must be a minimum of \$20 million, and for the most part, ESD's support will represent only a portion -- no more than one-fourth -- of the eligible project cost. In line with our strategic plan, our assistance will not always be in cash. In many cases, loans and loan guarantees can stimulate growth just as effectively while providing for repayment of public dollars.

No matter what the form, sponsors will face penalties if the project fails to meet the objectives advanced in applying for a grant. And we will pursue the penalties vigilantly in what we hope are only rare instances.

In selecting the projects, ESD will apply these criteria:

- **The project's impact on the business activity within a municipality or region.** Existing conditions must demonstrate a significant need for commercial revitalization or community redevelopment.
- **The project's consistency with an existing local or regional comprehensive plan.** In fact, a lead sponsor must submit a resolution from a local legislative body

certifying that the proposal is consistent with local plans.

- **A demonstrable economic benefit to the municipality or region.** The applicant must show how the project will improve key economic indicators such as jobs, per capita income, capital investments, tax base or ability to export goods.
- **A determination by ESD that the project would not occur without program assistance.** Again, consistent with our goals, we allocate our limited carefully precious and intend to use them only where our aid is clearly the factor that gets the project off the ground.

Because these are major projects, and major expenditures of public dollars, we believe these decisions should not be left to ESD alone. We propose a five-member Capital Approval Board, similar to the PACB, to review projects advanced by ESD. The board as we envision it will have three voting members -- the budget director, the speaker and the Senate Majority Leader, as well as the legislative minority leaders ex-officio. This board will review the economic and social benefits of each project.

The fund will apply metrics to ensure that goals are being met, and report annually on its work.

In short, the Investment Opportunity Fund can and will become a powerful economic development tool: a program that will target funding to achieve strategic goals, include input from localities around the state, and encourage maximum private investment.

The New ESD

The principles of the Investment Opportunity Fund demonstrate how the new Empire State Development operates.

When we took office earlier this year, we found an agency very much in disrepair. We found programs not properly aligned with goals. We found companies and people unaware of programs designed to benefit them. We found an agency slow to act. And we found a disconnect between efforts to jump-start the upstate economy and maintaining prosperity and growth downstate.

This was our response:

- We altered the way we look at funding decisions so our limited resources encourage maximum private investment.
- We infused our operations with a determination to be smarter, faster and nimbler so we identify and seize opportunities quickly.
- We added transparency in the way we go about our business.
- We have strengthened links between downstate and upstate. We consistently pitch upstate to downstate companies to help them meet their business needs.
- We made accountability a priority.

And, as I noted, we began thinking strategically.

The AT Kearney report called for targeting resources to foster creation of Innovation Economy jobs. To be strategic instead of scattershot in spending taxpayer dollars.

AT Kearney backed up its reasoning with statistics. Each job outside the Innovation Economy pays about \$30,000 annually with a job multiplier of one. Each Innovation Economy job averages \$65,000 and creates 3.5 additional jobs.

AT Kearney suggested focusing on sectors that meet three criteria:

- They must be technologically centered or enabled
- They must compete globally
- They must be capable of building competitive advantage using New York's assets

AT Kearney identified three key emerging sectors worthy of focus: nanotechnology, bioscience and cleantech. New York has considerable assets in all three sectors, assets that if used properly, and strategically, will form the backbone for tomorrow's New York economy.

Assets such as Cold Spring Harbor Laboratory and North Shore/LIJ, whose research fuels the already vibrant bioscience industry on Long Island. Or the Center of Excellence in Nanoelectronics and Nanotechnology in Albany, which, in tandem with the IBM Alliance in East Fishkill, creates the possibility of a

nanotech corridor extending the full length of the Hudson River and beyond. Or the thriving bio/pharma industry with companies and world-class research institutions headquartered in New York City, Westchester and Rockland.

Implementing the Strategy

Of course, strategy will not generate results without implementation. We have already put some of our theory into practice – with realistic, targeted action.

For example, we want to encourage the commercialization of solar technologies, which, as part of the cleantech growth sector, will help fulfill our strategic economic development objectives while assisting the governor's call for increasing to one-fourth the percentage of New York's energy from renewable sources.

There are already more than 170 renewable energy companies in New York and we want to nurture their growth and encourage others. So we were confronted with a dilemma recently when we were approached by a consortium looking to promote

solar energy as a Hudson Valley industry. The consortium sought ESD operating assistance.

While we support the consortium's goals, we believed our funding should directly assist individual companies to achieve the most direct economic development benefit. So we agreed to earmark funds for solar energy companies in the Hudson Valley, companies identified with the assistance of the consortium.

Our investment here is strategic -- solar energy belongs to one of the Innovation Economy sectors that will maximize job growth. And our limited dollars will go where they will produce the most direct public benefit: to individual companies making hiring decisions and capital investment.

But being strategic also means eliminating overlap and competition. Shortly, you will hear the governor's plan for developing the Harriman campus here in Albany, run by one of our subsidiaries. While I won't go into details, you will see one major strategic change: cooperation rather than competition. Currently, seven entities within a 25-mile radius of the Harriman Campus have labeled themselves as technology parks, and strategically, it

makes sense to develop Harriman to complement that growth rather than compete with it.

Transformative construction projects downstate

In New York City, transformative construction projects are and will continue to be a cornerstone of our economic development efforts. But again, strategic thinking and an integrated approach to achieving true, sustainable growth underpin our revisions to existing projects.

Let me bring you up to date on two of them: Moynihan Station and the Javits Convention Center expansion, both of which demand considerable capital expenditures over time.

This summer I read historian Jill Jonnes' "Conquering Gotham," a great book about the construction of the first Penn Station. Over a century ago, when the public and private sectors conceived of a transportation center on the West Side, the challenges those planners faced were gargantuan in scope.

The private sector and government teamed up and turned daunting challenges and widespread skepticism into a common vision that produced Penn Station, the largest rail hub in the country. “Conquering Gotham” makes it clear that this was an epic effort and success was no certainty.

The Moynihan Station project has the same transformative potential. And as we worked with the many stakeholders to produce the scoping document we released last week, we applied the same standards that form the framework of our proposed Investment Opportunity Fund: maximize private investment; have a clear public benefit; address local development priorities; and solicit and incorporate public input.

This was our vision:

- We believe that no single party’s interests are larger than the common goal of an expanded train station that reduces crowds and provides easier access to train platforms.
- We believe that if we create a grand public works project that improves transportation links, the

developers who benefit from it should help taxpayers foot the bill. Already, as a starting matter, they have offered at least \$450 million to the project's \$2 billion cost and agreed to bear the risk of certain cost overruns.

- We believe that the largest rail hub in the country should be a priority of the federal government. So we are calling on our partners in Washington to give Moynihan Station the funding it deserves while not shortchanging the operating and capital needs of Amtrak.

We have moved at an expeditious but deliberate pace, yet the complexities here are real. We believe that we have a responsibility to complete a project that leaves a lasting impression on the public consciousness for years to come, one that has public support, an iconic structure that New Yorkers can be proud of.

That takes me to another major downstate project: the expansion of the Javits Convention Center. There too, we have an opportunity to create a convention center that expands New York's ability to draw business. It must meet the needs of those who use it. It must draw visitors to the city who then spend money on hotel rooms, restaurants and our world-class cultural amenities. We

knew we could not move forward with a plan that excludes the input of stakeholders – those who use Javits daily, labor and the hotel industry.

In exploring the various alternatives put forth before we began shepherding this plan, we've now realized that the proposal we inherited dramatically underestimated the expansion costs. How will we meet the challenge in an environment where taxpayers have limited resources? Together with the City, we're exploring ways to control the costs by working with our private partners. But we are going to have to make some hard decisions about how to proceed – decisions that must weigh from a strategic perspective the benefits of the various options versus their cost.

Conclusion

In summation, we understand that we are asking for significant new funding in a difficult fiscal environment. We believe the benefits, however, both short and long term, will far outweigh the costs, and look forward to working with you, the Governor's Office and Legislature to put forth a strategic economic development that:

- Has strategic goals.
- Aligns with regional, local initiatives.
- Measures success.
- Positions the state to compete in the segments that will produce the greatest economic development.

A statewide Investment Opportunity Fund, the new strategic regional initiatives downstate, and those investments being made by my upstate counterpart Dan Gundersen are all part of an innovative and new economic development capital program that is representative of the new, *strategic* Empire State Development.

I'd be happy to answer any questions.