Testimony of
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Before the
New York State Division of the Budget
Public Hearing on the FY2008-2009 Budget

Hauppauge, New York

November 30, 2007

Thank you for the opportunity to provide testimony concerning Long Island's needs in the 2008-2009 State fiscal year.

Given the population and complexity of this region, Long Island's need for State financial support in the upcoming fiscal year encompasses many parts of the State budget, including, among many other things, transportation infrastructure investment, transit subsidies, Medicaid and other healthcare financing, tourism funding, environmental infrastructure financing, and criminal justice and correctional financial support.

For the purposes of this testimony, however, I will focus on three specific areas of vital State support for Long Island, each of which has region-wide economic significance: State aid to education; State support for affordable housing; and State economic development capital expenditures.

To put these areas of needed State support in the correct context, I will begin with a summary of Long Island's current economic condition, and the economic challenges it faces in the foreseeable future.

Long Island's Economy

Long Island, defined as Nassau and Suffolk counties, has a freestanding economy of considerable size. In October 2007, the Federal Bureau of Economic Analysis released a study of the gross products of the metropolitan areas throughout New York. That analysis showed that the cumulative metropolitan product of all metropolitan areas in the state outside of New York City, other than Long Island, was $147.641 billion in 2005. The gross metropolitan product of Nassau and Suffolk counties (a subset of BEA's New York City/Northern New Jersey/Long Island metropolitan area) is $136.961 billion. In other words, the economic output of Long Island almost equals that of the other metropolitan areas of the state, other than New York City, combined.

Long Island is New York State's second most significant economic engine, next to New York City. The region's economy effectively helps subsidize State economic support for upstate New York. A few years ago, the Long Island Association (LIA) engaged the Center for Government Research (CGR) in Rochester to analyze the "balance of payments" between Long Island and New York State. Based upon 2001 data, CGR concluded that Long Island paid to the State about $2.7 billion more than it received back in total state payments and investments. In the intervening six years, that figure undoubtedly has increased substantially. CGR currently is doing an updated analysis of balance of payments throughout the state, and it undoubtedly will show that the gap in Long Island's balance of payments to New York has widened substantially since 2001.

Simply put, that which strengthens Long Island's economy, strengthens New York; that which weakens Long Island's economy, weakens New York.

Long Island's development since World War II as an economic force distinct from New York City has been driven by one principal factor: a younger, more productive workforce. Beginning in the 1950s as millions of people moved to Long Island from New York City and elsewhere, and businesses followed, surveys consistently showed that Long Island's population and workforce were somewhat younger and measurably more productive than the nation and the surrounding region. The availability of that younger more productive workforce made doing business in the region profitable, despite the rising cost of taxes, energy, and transportation that followed Long Island's rising prosperity.

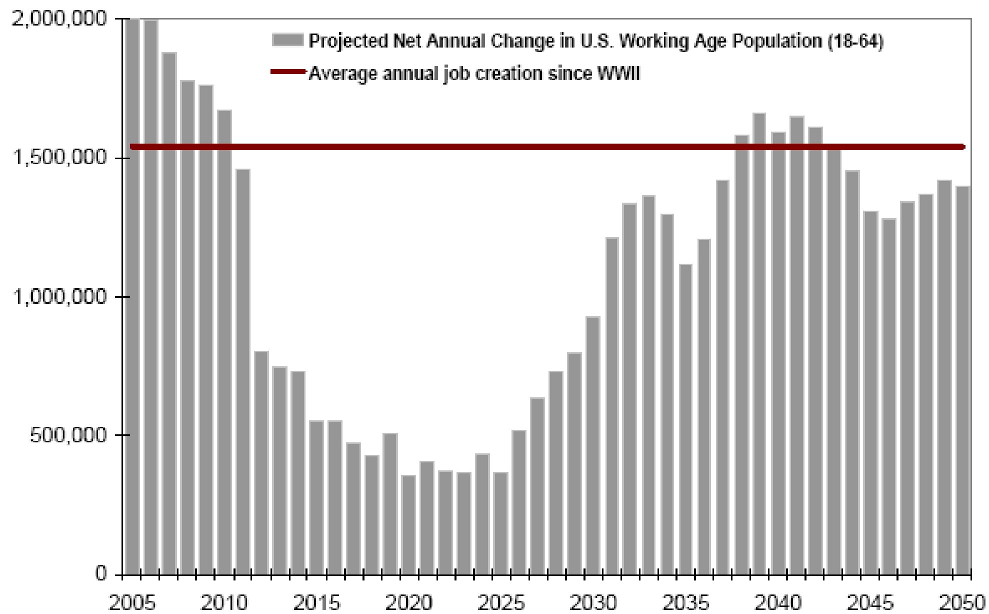
There is a tendency among people unfamiliar with Long Island to assume that its decades-long growth and prosperity will simply continue without the need for proactive economic development. That is no more true of Long Island than it is of any other region. Long Island's economic growth has slowed markedly. Job creation is minimal, just 5,400 private sector jobs year-to-year as of October 2007, and many of the jobs being created are lower paying. The region's growth potential is being dramatically affected by demographic changes combined with the outmigration of younger people.

According to the American Community Survey's (ACS) estimate of Long Island's 2006 population, this region's 25 to 44 age group declined by 122,477 people from 2000 to 2006. That represented a 14.8 percent decline overall. Some of that decline was attributable to demographic changes related to lower past birth rates. But by no means all of it. The national demographic decline in that age group during the period was 1.5 percent, just one tenth of Long Island's decline. New York's City's decline was 3.3 percent, less than one fourth of Long Island's experience. The other metropolitan suburbs had an 8.7 percent decline. Clearly, outmigration is shrinking Long Island's younger population at rapid rate.

That outmigration is occurring as this region, as well as the State and the nation, enter into a period of profound demographic change. It has been ten years since McKinsey and Company published "The War for Talent," which foresaw the intensifying competition among companies and regions for creative workers as the Baby Boomer-retirement-driven demographic changes affect the country. The beginning of that period of change is just a few years away now.

In April 2007, the State of Vermont released a report entitled “Growing Vermont’s Next Generation Workforce,” the latest in a series of reports done around the country concerning the impending demographic changes to the workforce. The report included a chart prepared by TIP Strategies of Austin, Texas that well illustrates the changes.

Figure 1.1: Approaching deficit of workers in the U.S.



A comparison of annual average job creation in the US with projections of the number of new workers entering the workforce each year reveals an impending shortage that is expected to last for decades.

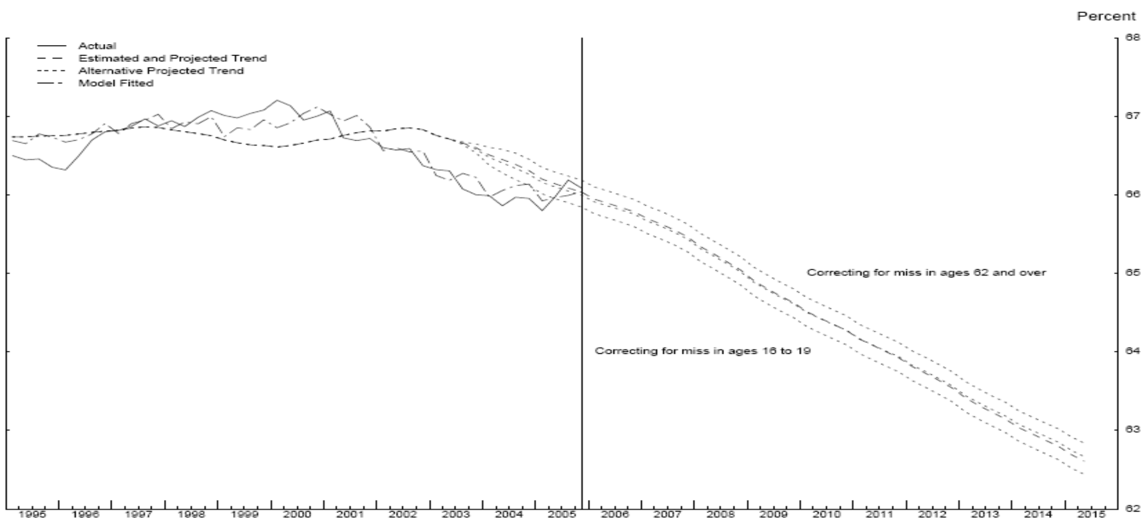
Sources: TIP Strategies, U.S. Bureau of Labor Statistics, U.S. Census Bureau

In the TIP chart, the horizontal line represents the average increase in job creation on the United States since World War II, slightly over 1.5 million. The vertical lines represent the total population between the ages of 18 and 64, the usual definition of the American workforce. 2007 is the third vertical line from the left.

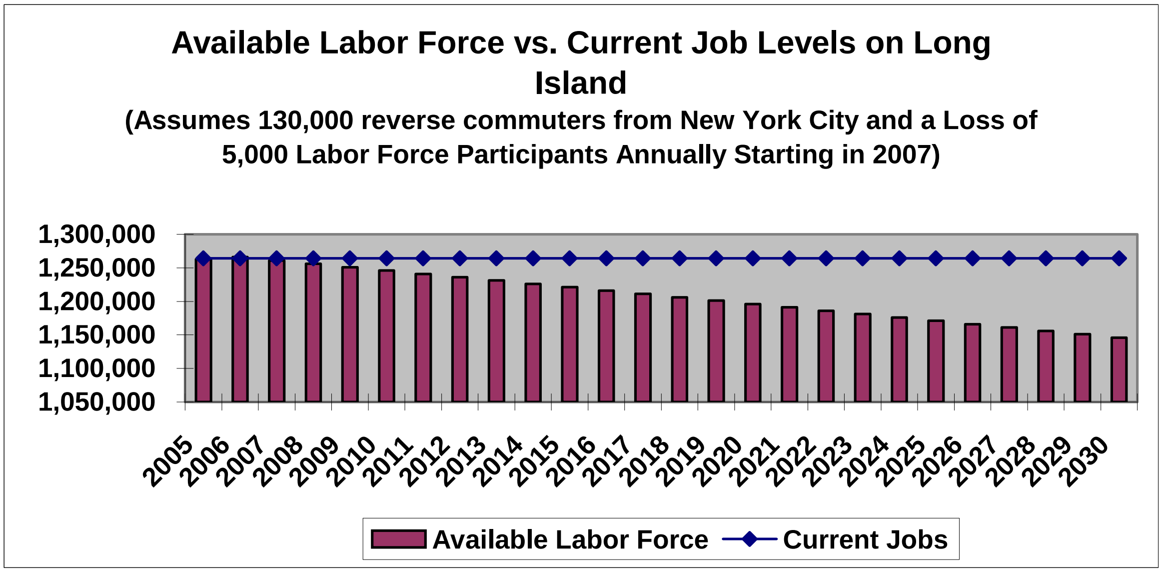
The chart shows that beginning in 2011 there will not be sufficient people available for the national workforce to sustain the job growth on which the nation’s economy has depended for the last six decades. That deficit will last from 2011 to 2038, a period of 27 years. At its worst, the deficit of workers will not be able to sustain even one third of the nation’s historic job growth. That deep deficit will last eight years.

This demographic trend has been well known to economists and planners for many years. The TIP analysis echoes conclusions reached by the March 2006 study done by the Division of Research and Statistics of the Federal Reserve Board entitled, “The Recent Decline in Labor Force Participation and its Implications for Potential Labor Supply.” That study included the following chart depicting labor force projections through 2015:

Figure 15
Labor Force Participation Rate Model Results: 1995-2015



The combination of ongoing outmigration and the impending demographic changes will have a profound effect on Long Island’s economy. The following chart illustrates the likely workforce trend line if current conditions remain unchanged. The current conditions are: current population based upon ACS annual estimates; no change in the number of workers who commute to and from Long Island for work; continued outmigration of 5,000 Long Island-resident workers per year.



In the chart, the horizontal line represents Long Island's <u>current</u> workforce. The estimates of workforce population are based upon a working population between the ages of 18 and 64. They are adjusted annually going forward based upon ACS estimates of Long Island population with the standard ACS age cohorts. The chart indicates that beginning in 2008 Long Island will struggle to have sufficient workforce to meet current employment demands, and will be unable to meet the needs of growth. The reasonableness of that conclusion is bolstered by the fact that Long Island's unemployment rate consistently has been below 4 percent in 2007, and by anecdotal evidence from employers throughout the region.

The conclusion that the State should draw from these facts is that Long Island requires immediate proactive economic development assistance from the State. And that assistance should not be withheld because of the prospective deficit facing the State budget. There are two reasons for that. First, time. The outmigration and demographic forces that threaten Long Island's economy are moving forward inexorably and their combined effect will begin to have serious economic consequences in the immediate future. A delayed response by the State effectively will be no response.

Second, equity. Long Island has received scandalously meager economic development funding from the State for over ten years. For the State to take the position now that funds cannot be made available to help Long Island's economy would be patently unfair. The State cannot abandon proactive economic development efforts because of an annual operating deficit; that clearly would be counterproductive. The issue for FY2008-2009, then, is where the State economic development efforts will be focused. Equity now requires that they be focused on Long Island.

For example, take the state's investment of $300 million this year to bring the International Sematech consortium to the Capital District. That investment followed several hundred million dollars of previous State investment in the same location. The overall economic development capital investment in that one area alone likely approached $1 billion over the last eight years. During that same time, the state's comparable economic development capital investment in Long Island was a tiny fraction of that amount.

The point is not that the state's Sematech investment was unwise or inappropriate, it is that the state has badly neglected economic development on Long Island while it has made heavy investments elsewhere. Clearly, parts of upstate New York need economic development investments from the State, given their poor economic condition. But it makes no sense to allow Long Island's economic production, second only to that of New York City, to gradually erode for lack of state investment in its growth.

For the FY 2008-2009 budget, State economic development assistance for Long Island should, at a minimum, take three forms. First, tax relief in the form of a significant reduction of Long Island's unfair property tax burden through higher education aid to Long Island's school districts. Second, State legislative and economic support of affordable housing, especially for younger workers. And third, significant State investment in economic development capital programs aimed at retaining and attracting a younger workforce.

State Aid to Education

In our study entitled "The Effect of the 2007-2008 Executive Budget's provisions Relating to State Education Aid and STAR Property Tax Relief on Nassau and Suffolk County Taxpayers," released in March 2007, the LIA and the Long Island Education Coalition (LIEC) pointed out that Long Island taxpayers use 20% more of their gross household income to pay property taxes than New Yorkers in general. That fact alone should cause the State to review and revise the manner in which State education aid is distributed.

Long Islanders' per capita tax burden significantly exceeds that of New York City taxpayers, and is likely the highest in New York. Some evidence exists that Long Islanders pay the heaviest property tax burden in the nation. In large part, that is because Long Islanders pay locally a much higher share of the cost of education than is the case throughout the State. Approximately 70 percent of the cost of education on Long Island is paid through local property taxes; the statewide average is about 45 percent.

Long Island suffers from the inaccurate perception that the region is wealthy. In fact, 34 percent of Long Island students live in school districts whose wealth is below the statewide average; in eastern Suffolk County that percentage is as high as 67 percent. Long Island is predominantly a middle class region whose working people struggle to bear the tax burden placed on them.

A Long Island worker earning the regional median wage, purchasing a median-priced home and financing that house over 30 years, has far less disposable income than wage earners in other regions of the state. Disposable income for a Long Island median wage homeowner is less than 1% of wages earned. Disposable income for such workers in other regions ranges from 14% to 57% of the median wage. (That calculation does not include the cost of property taxes.)

For many years, the LIA and the LIEC called for an increase in education funding statewide; simplification of the education aid formula; the creation of multi-year appropriations to improve planning; and the use of a regional cost adjustment formula in the education aid calculation.

In FY2007-2008, the State increased education funding by approximately $7 billion over the next four fiscal years and adopted a "Foundation Formula," which includes a regional cost adjustment formula, to simplify the distribution of education aid. As the result of negotiations between the Legislature and the Governor for the current fiscal year, Long Island districts received an approximate $101 million increase in Foundation Aid and $70 million in High Tax Aid. On the surface, it appeared as though the State had accomplished what the LIA and LIEC had sought.

Closer examination during the ensuing months, however, has convinced us that the Foundation Formula does not work as it should and needs substantial changes. While we favor a simplified foundation formula, that does not mean we favor any foundation formula.

63 percent of Long Island's 121 school districts this year received the 3 percent minimum increase in Foundation Aid, and among those 63 were 9 districts that are below the state average for wealth, educating over 66,000 children. Of the 58 districts that received more than the 3 percent minimum, 41 districts, or 70 percent, were above the state average for wealth. In other words, in 50 school districts on Long Island the Foundation Formula in this year's State budget worked exactly contrary to the manner expected.

As constructed, the Foundation Formula produces other results that are absurd. For example, the "Expected Minimum Local Contribution Per Pupil" for the Rockville Centre School District this year was $29,598.85, an amount that is unreasonable on its face for any school district in the State. The "Adjusted State Sharing Ratio," which is a crucial element of the formula, must contribute to producing reasonable expectations for local contribution.

Additionally, the regional cost factor in the Foundation Formula is fatally flawed. Among other things, the regional cost factor for Long Island and New York City was calculated in combination on the ground that the two areas appear to function as a single labor market region. That premise also is out of touch with reality. Long Island and New York City are very distinct and separate labor markets, and have been for decades. Approximately 80% of Long Islanders who are employed work on Long Island. Only 20% of employed Long Island residents commute to jobs in New York City. Transportation barriers and information barriers concerning job availability make it difficult for New York City residents to easily obtain Long Island jobs, and Long Island residents to easily obtain New York City jobs.

Furthermore, the regional cost index calculation used in the Foundation Formula was based on a broad range of occupations, but it deliberately excluded teachers. The justification given was that "education-related titles were … excluded in order to ensure that this index be entirely a measure of labor market costs, and not be subject to the tastes or control of districts. Therefore, we sought to measure genuine labor market costs, not the results of districts' decisions to hire especially high quality teachers, or to influence the index value in later years by choosing to pay more for staff."

Those issues may make for an interesting academic debate, but the practical effect of a regional cost factor based upon those assumptions makes little sense.

The Spitzer Administration appears to accept the notion that approximately 70 percent of all newly appropriated education aid funds should be allocated to high need/low wealth school districts. That approach seems equitable on the surface, but the reality it produces is quite different. It treats all school districts as either rich or poor, with no gradations in between. Poor districts receive funds they presumably need; rich districts receive little. The reality on Long Island is that many of the region's 125 school districts are neither rich nor poor. Yet because of the administration's approach to new education aid, they are treated as rich and never receive the additional funding they need and to which they should be entitled.

While it is not possible at this juncture to know what education aid proposal will be included in the FY2008-2009 Executive Budget, the Spitzer Administration has made school aid projections for the upcoming fiscal. The administration projects eliminating High Tax Aid, which would cost Long Island school districts $70.3 million. The administration also projects eliminating supplemental excess cost aid, which would cost Long Island districts an additional $11.4 million. At a minimum, therefore, the administration projects reducing school aid to Long Island by over $80 million. Unless those reductions are offset by increases in foundation aid, Long Island school districts will receive less State aid in FY2008-2009 than they did in the current year.

That is simply unacceptable to the people of Long Island, and it would be fundamentally unfair.

In view of the fact that New Yorkers who happen to live on Long Island pay 20 percent more of their household income on property taxes than other New Yorkers, the State should be increasing school aid to Long Island not decreasing it.

The Long Island Association calls upon the Spitzer Administration to include the following in its FY2008-2009 Executive Budget:

- High Tax Aid at FY2008-2009 levels

- Supplemental excess cost aid at FY2008-2009 levels

- A 5 percent increase in the minimum foundation aid to all school districts

- Amendments to the Foundation Formula to provide a more rational regional cost index

- Amendments to the Foundation Formula to provide a more rational calculation of expected local share.

Affordable Housing

Long Island's most urgent economic development need is to retain and attract younger workers. That is not a need that can be addressed by traditional economic development methods. One tax incentive deal at a time with individual companies will not solve Long Island's problem. Increasingly, growing global companies move to where the talent is, not the reverse.

Long Island needs housing that younger people can afford. Without that, the region will have no hope of retaining and attracting younger people. The LIA, organized labor on Long Island, and hundreds of other organizations, as well as public officials, have long believed that, because of the multiplicity of zoning jurisdictions on Long Island and their historical refusal to permit the construction of affordable, multi-family housing developments, Long Island needs regional inclusionary zoning legislation to begin to solve the housing problem.

Although inclusionary zoning legislation does not require an appropriation and therefore need not be included within budget bills, its economic importance for Long Island is so significant that the Spitzer Administration should introduce it as a companion to the FY2008-2009 Executive Budget and urge its passage when the budget is taken up by the Legislature. The bill language necessary is contained in the Long Island Workforce Housing Initiative bill previously passed in the Assembly.

Inclusionary zoning legislation should be combined with realistic incentives for local governments to build affordable housing, hold harmless provisions for school districts, and the expanded use of state land and state Common Retirement Fund investments.

Financial incentives for local governments in the form of grant and loan programs can be particularly helpful. Such a program for Long Island could be funded from the approximately $50 million appropriation to the Housing Finance Agency on the grounds that, on Long Island, the incentive is needed to get affordable housing projects approved.

The hold harmless legislation for school districts would provide capital construction funding support to school districts that can demonstrate that an affordable housing project in the district caused the need for capital construction. This is not an open-ended commitment by the State. The burden to demonstrate the need for capital construction would be on the school district making the claim. On Long Island, in most school districts, that claim will be difficult to establish in the future. According to the American Community Survey's 2006 estimate for Long Island, between 2000 and 2006, the population between birth and age 9 declined almost 38,000. It will rarely happen that affordable housing developments will produce the need for additional capital construction.

All available opportunities to use State-owned land on Long Island for affordable housing should be used beginning in FY2008-2009. For example, three SUNY-related campuses have sufficient land for "transitional" studio and one-bedroom apartments for young people, Farmingdale, Old Westbury, and Suffolk Community. All three have agreed to the idea (Farmingdale under the former president) and former SUNY Chancellor John Ryan agreed as well. Legislation authorizing the use of the land for that purpose should be introduced by the Spitzer Administration, and similar legislation relating to SUNY Purchase can be used as a model.

The State's Common Retirement Fund should be utilized to develop affordable housing on Long Island. The model for that initiative is the California Public Employee Retirement System (CALpers), which has invested billions in diverse housing projects, that, collectively, have produced the highest return on investment of all CALpers investment vehicles. Governor Spitzer supported this initiative during his campaign for office, and State Comptroller Thomas DiNapoli supports it as well.

Additional affordable housing-related legislation should be included in the budget or introduced by the administration simultaneously with it as companion legislation, including legislation that would permit municipalities to create funds for housing-related purposes. The funds could receive moneys from any source. Additional legislation should authorize tax credits for employers who provided their employees assisted housing programs; provide tax exemptions for materials used in the construction or rehabilitation of affordable housing; and allow the Affordable Housing Corporation to fund housing in buildings that also contain commercial retail establishments.

Economic Development Capital Programs

As important as affordable housing legislation is, affordable housing sprinkled randomly across the region will not be enough to attract and retain younger people. Long Island needs the development of vibrant stimulating community areas in which younger people can live in the company of other younger people. All of the relevant research that has been done on the preferences and desires of the talented creative younger people on which the region's future economy will depend, the so-called Creative

Class, has shown that they are seeking places to live that not only have good schools and local services, but a strong sense of community and the easy availability of an exciting, interesting, creative atmosphere.

For Long Island, that means the redevelopment of downtown areas throughout the region, especially those that are on or near the Long Island Rail Road line to provide efficient mass transportation. One excellent example of the kind of development we need is the Cool Cities program of the State of Michigan, which can be accessed at www.coolcities.com. Michigan is well advanced in doing what New York should have been doing for at least the last decade.

Downtown redevelopment has been discussed on Long Island for many years. Some projects have been undertaken in a handful of places. But in every instance, local governments have struggled with the problem of funding. And, despite the encouraging progress made in some places, Long Island does not have a region-wide impetus to redevelop downtowns as a clear, accepted economic development strategy. Only state funding and state leadership can change that.

The Co-Chairmen of the Empire State Development Corporation have proposed to the Spitzer Administration a so-called Investment Opportunity Fund that may be the answer to this problem. That will be true if, and only if, the Fund is adequately funded and structured in a way that will make the funding equitably distributed across the state and easily accessible for meaningful development projects. A program that includes bureaucratic barriers that would take years to overcome is not what New York and Long Island need. On Long Island, we do not have the luxury of time to begin solving this problem in earnest.

When the Investment Opportunity Fund program is established, its funds must be available to Long Island in proportion to the Island's economic contribution to the state, as measured by gross metropolitan output. Anything else would be unfair, especially in view of the extreme imbalance of the distribution of state economic development capital funds in recent years. Long Island needs a truly significant infusion of capital funds, especially for downtown redevelopment, if the state is going to play a meaningful role in sustaining this region's economic viability. That means hundreds of millions of dollars.

Conclusion

Long Island's economy, whose output nearly equals all of the metropolitan areas of the State outside New York City, is fast approaching a critical juncture. The region is losing younger people from its workforce at a dangerous pace because the high cost of living and the lack of affordable housing. That loss is coming at a time when demographic changes caused by Baby Boomer retirements will dramatically reduce the overall workforce.

Long Island urgently needs State assistance to support its economic base. While that assistance should come in many and varied forms, the most pressing needs for FY2008-2009 are a significant increase in State aid to education to help reduce Long Island's disproportionately high property tax burden; affordable housing legislation that combines an inclusionary zoning requirement for local governments with various forms of State financial incentives and participation; and substantial State economic development capital investments, including a meaningful State commitment to downtown revitalization, especially along the route of the Long Island Rail Road.

The State may be confronting an operating deficit for the upcoming fiscal year, but that must not interfere with the State's commitment to improve Long Island's economy and to distribute available funds fairly. In deficit years, choices have to be made. If the State chooses not to provide Long Island with the funds its economy needs to successfully meet the challenges it clearly faces, the State will be choosing to put its second major economic driver at risk. That choice might be penny wise for the next fiscal year, but it would be pound foolish for Long Island's – and New York's – future.